sage from the Auditor General of Canada
Points

CA1
AG
- A55

Governmer..
Publications

2007



Report of the Auditor General of Canada to the House of Commons

MAY

A Message from the Auditor General of Canada

Main Points

Office of the Auditor General of Canada



2007



Report of the Auditor General of Canada to the House of Commons

MAY

A Message from the Auditor General of Canada

Main Points

LIBRARY
MAY 29 2007
UNIVERSITY OF TORONTO

Office of the Auditor General of Canada

The May 2007 Report of the Auditor General of Canada comprises A Message from the Auditor General of Canada, Main Points—Chapters 1 to 7, and seven chapters. The main table of contents for the Report is found at the end of this publication.

LIBRARY
MAY 29 2007
UNIVERSITY OF TORONTO

The Report is available on our website at www.oag-bvg.gc.ca.

For copies of the Report or other Office of the Auditor General publications, contact

Office of the Auditor General of Canada
240 Sparks Street, Stop 10-1
Ottawa, Ontario
K1A 0G6

Telephone: 613-952-0213, ext. 5000, or 1-888-761-5953
Fax: 613-943-5485
Hearing impaired only TTY: 613-954-8042
Email: distribution@oag-bvg.gc.ca

Ce document est également publié en français.

© Minister of Public Works and Government Services Canada 2007
Cat. No. FA1-2007/2-0E
ISBN 978-0-662-45616-2

Auditor General of Canada
Vérificatrice générale du Canada

To the Honourable Speaker of the House of Commons:

I have the honour to transmit herewith my second Report of 2007 to the House of Commons, which is to be laid before the House in accordance with the provisions of subsection 7(5) of the *Auditor General Act*.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

OTTAWA, 1 May 2007


Digitized by the Internet Archive
in 2022 with funding from
University of Toronto

https://archive.org/details/31761115504607

Table of Contents

A Message from the Auditor General of Canada—May 2007 3

Management of Forensic Laboratory Services 3

Canadian Agricultural Income Stabilization 4

Human Resources Management—Foreign Affairs and International Trade Canada 5

Federal Loans and Grants for Post-Secondary Education 6

Modernizing the NORAD System in Canada 7

Managing the Delivery of Legal Services to Government 8

Use of Acquisition and Travel Cards 9

Conclusion 10

Main Points—Chapters 1 to 7

Chapter 1 Use of Acquisition and Travel Cards 13

Chapter 2 Federal Loans and Grants for Post-Secondary Education—Human Resources and Social Development Canada and Canada Millennium Scholarship Foundation 15

Chapter 3 Human Resources Management—Foreign Affairs and International Trade Canada 17

Chapter 4 Canadian Agricultural Income Stabilization—Agriculture and Agri-Food Canada 19

Chapter 5 Managing the Delivery of Legal Services to Government—Department of Justice Canada 21

Chapter 6 Modernizing the NORAD System in Canada—National Defence 24

Chapter 7 Management of Forensic Laboratory Services—Royal Canadian Mounted Police 26

A Message from the Auditor General of Canada—May 2007

A Message from the Auditor General of Canada—May 2007



© Photo Couvrette/Ottawa

Sheila Fraser, FCA
Auditor General of Canada

In the reports we present to Parliament, we provide answers to some important questions about the management of government programs and services. Are they managed with due regard to economy, efficiency, and their impact on the environment? And does the government have measures in place to determine if programs and services are effective in achieving the objectives set for them?

Our audit mandate covers the full range of activities of the federal government. Given the size of government and the scope of its activities, deciding what to audit is a challenging exercise. We may decide to audit an activity carried out in a single department or in several; we may select an issue that affects many departments. Choosing audit subjects well is essential to producing reports that are useful to Parliament.

We select areas for audit based partly on the risks they may involve. Examples of high-risk areas include those that cost taxpayers significant amounts of money or that involve public safety or national security. We may decide to audit an area that offers potential for improving government results or is of great interest to Parliament and the Canadian public. We pay particular attention to requests by parliamentary committees for audits of specific areas of concern to them, and we try to incorporate such requests into our audit planning where our resources and mandate permit.

This report includes two chapters on audits performed at the request of standing committees of the House of Commons. We audited the management of the RCMP's Forensic Laboratory Services, following a request by the Standing Committee on Justice, Human Rights, Public Safety and Emergency Preparedness. And we audited the Canadian Agricultural Income Stabilization program after receiving a request from the Standing Committee on Agriculture and Agri-Food.

Management of Forensic Laboratory Services

The RCMP's Forensic Laboratory Services is the main provider of forensic analysis for most police agencies and courts in Canada. A national laboratory service operating at six sites in Halifax, Ottawa, Winnipeg, Regina, Edmonton, and Vancouver, it provides a range of forensic analysis services relating to criminal cases. Among its responsibilities is the operation of the national DNA data bank containing DNA samples from thousands of convicted offenders.

Forensic labs are an important element of the criminal justice system, since investigators and prosecutors rely on forensics to help identify or eliminate suspects and to provide evidence that can hold up in court. Delays in obtaining results of forensic analysis can slow police investigations and leave criminals on the street to reoffend.

The request that we conduct this audit came after the Justice Committee heard conflicting testimony on the performance of the lab services and the status of DNA cases. At hearings of the Committee in 2004 and 2005, the RCMP had testified that its forensic lab services matched the best in the world, that the labs had no backlog of cases, that all cases involving violent crimes were given priority, and that the clients—police forces and prosecutors—were satisfied. Our audit found many of these claims to be incorrect.

We found that while the lab services can process urgent requests in less than 15 days, only 1 percent of all requests are classed as urgent. Among the remaining 99 percent, categorized as routine requests, are cases of violent crimes such as murder, sexual assault, robbery, and abduction. For most routine requests, the lab service is unable to meet its own turnaround target of 30 days, partly due to its backlog of DNA cases. For instance, on average a request for DNA analysis took 114 days to complete during the 2005–06 fiscal year.

We also found problems in the quality control of lab results. In practice, there are significant weaknesses in how quality issues are defined, recorded, monitored, and resolved. We did not audit the quality of the forensic science used and therefore offer no opinion on the validity of the analysis or the results. However, we found that the lab services' own quality management system had failed to identify problems with the new automated process for DNA analysis. After scientific staff questioned the validity and consistency of some DNA results, the automated process was shut down for several months. The difficulties continued, however, and lab officials did not identify the problem as a quality issue for more than a year.

We last audited the Forensic Laboratory Services in 2000. At that time, management committed to address our recommendations within three years. Now, seven years later, we find it necessary to repeat most of those recommendations.

Canadian Agricultural Income Stabilization

We audited the Canadian Agricultural Income Stabilization (CAIS) program following a request by the House of Commons Agriculture and Agri-Food Committee. The CAIS program was the latest in a number of programs developed by Agriculture and Agri-Food Canada

to provide income support to agricultural producers when their farm income dropped due to circumstances beyond their control. Producers received a benefit payment based on information included with their applications to CAIS.

We found that the Department was not transparent in explaining how it calculated benefits. When it changed some of the information submitted by producers, it did not explain in the final benefits statement the reasons for changes or their impact on the benefit amount. As a result, producers did not receive in an easily understandable form all the information they needed to decide whether the payment they received was appropriate or whether they should appeal an unfavourable decision. Further, there were long delays before producers learned whether they would receive a benefit and in what amount.

We found that the Department focused on detecting overpayments to producers rather than possible underpayments. Given that the onus was on producers to identify and question incorrect figures in the statement sent to them by the Department, this approach was not consistent with the objective set out for the program in the *Farm Income Protection Act*—to protect the income of producers. Furthermore, we were surprised to discover that some of the staff involved in assessing applications were also acting as paid consultants to help producers prepare their applications. This practice contravenes the conflict-of-interest provisions in the *Values and Ethics Code for the Public Service*. We note that the Department has now instructed its employees not to do this.

Since we completed our audit work, the government has announced its intention to change the CAIS program. We believe the Department should look for ways to simplify the delivery of farm income support and make the process more user-friendly.

Human Resources Management—Foreign Affairs and International Trade Canada

Canada relies on the people who work in its missions to be its "face abroad." Foreign Affairs and International Trade Canada operates 170 missions in 111 countries around the world. In light of increasing globalization, its employees abroad and at headquarters in Ottawa must respond to growing demands for services from other government departments, individual Canadians, and Canadian companies. The government also relies on the Department for timely advice to help it develop its foreign policy.

It is important to Canadians that the Department have the right people in the right place at the right time and that it be able to act quickly and decisively in a rapidly changing environment.

We found that the Department has no strategic human resources plan. It does not have a complete picture of the people, competencies, and experience it needs now and in the future. In the next few years, more than half of its employees in the management category will be eligible to retire. The Department has been unable through its recruitment, promotion, and assignment processes to fill its positions in a timely way with enough people who have the required skills and competencies.

We also found that the Department does not pay enough attention to the management of locally engaged staff in Canadian missions abroad. Although these employees account for half of its workforce, the Department does not have accurate and complete information about them. It is not giving its missions the support they need to properly manage the local staff they rely on.

The Department has difficulty finding employees willing to accept postings to its missions in the United States or in dangerous parts of the world. The number of missions considered dangerous or extremely difficult has doubled since 1991. The process in place to compensate employees for living conditions abroad and provide incentives for hardship postings has not allowed the Department to respond in a timely way to changing circumstances. It has been working with the Treasury Board Secretariat to find solutions to these problems, but progress is slow.

Federal Loans and Grants for Post-Secondary Education

The Canada Student Loans Program of Human Resources and Social Development Canada (HRSDC) provides loans and grants to qualified students who need financial assistance for post-secondary education. In 2005–06, the Department loaned $1.9 billion to some 350,000 post-secondary students and awarded 78,500 grants amounting to about $129 million.

The grants provided by the Department and the Millennium Bursary and Access Bursary programs of the Canada Millennium Scholarship Foundation are designed to help limit the amount of debt that recipients accumulate. In 2006, the Foundation awarded almost $340 million in bursaries to over 100,000 students.

Although there are gaps in measuring and reporting program results, we found that the Canada Student Loans Program is well managed. The Foundation also manages its bursary programs well, and it

measures and reports the results adequately. Both organizations have appropriate controls for disbursing payments to students.

The Canada Revenue Agency (CRA) contracts with private collection agencies to collect a large proportion of defaulted student loans on behalf of HRSDC. Both the CRA and HRSDC have a responsibility to monitor the private agencies' compliance with specified collection requirements. However, we found that neither one carries out this monitoring adequately.

HRSDC and the Foundation are taking steps to make prospective post-secondary students and their families more aware of the financial assistance available to them. The Department has also improved its communication to students about measures that would help them manage their debt.

This is the second foundation we have examined since Parliament amended the *Auditor General Act* in 2005, extending our mandate to include them in performance audits of related federal programs.

Modernizing the NORAD System in Canada

Canada shares the defence of North American airspace with the United States through the North American Aerospace Defense (NORAD) agreement. Together they operate an air surveillance and control system over North American airspace. In 1997, the two countries agreed to update and modernize this system.

Originally, the Canadian government approved funding of about $93 million to define requirements and modernize the Canadian portion of the NORAD system. The project included a new system and the construction of an above-ground complex to house it, which would allow National Defence to close its underground complex at North Bay, Ontario.

We found that the modernization project has taken longer and cost much more than planned. We estimate that the cost of replacing the NORAD system in Canada and providing a new above-ground complex will total about $156 million, almost double the original estimate. The cost of the modernization exceeded estimates because of the way the project was structured and managed. There were problems in project management and oversight and in the construction of the complex. The Department did not always inform the government in a timely way of changes in the project's scope.

The Department did not complete a review of building security requirements before construction of the above-ground complex and, at the time of our audit, questions remained about the security of the

building and the feasibility of using it for the intended purpose. As a result, the Department has had to keep some operations in the underground complex.

Though it originally expected to save $16 million a year in personnel and operating costs after closing the underground complex and operating out of the facility above ground, National Defence was still operating both facilities at the time of our audit. Anticipated savings have not yet been realized.

Managing the Delivery of Legal Services to Government

Justice Canada can be characterized as Canada's largest law firm, with about 2,500 lawyers and a budget of close to $1 billion in 2006–07. The Department provides legal advice to federal departments, drafts regulations and legislation, and with a few exceptions, represents all departments and agencies in court. Since our last audit in 1993, the complexity and volume of litigation have increased significantly, and the cost of the Department's legal services has more than tripled.

We found that the Department relies on a number of quality management practices and the expertise of the lawyers it employs to help ensure the quality of the legal services it provides to the government. However, it does not know whether it is delivering the right level of quality, because it lacks a departmental quality management system and has not articulated what it means by quality. This impedes its ability to deliver consistent quality of service to the government and to assess whether it is meeting that objective.

The current cost-sharing arrangements with client departments provide little incentive to control costs and manage the demand for legal services—a problem Justice Canada has been aware of for a long time. We also found that it is inefficient to administer the current arrangements—there are more than 100 arrangements with the eight departments in our audit sample. Further, cost information provided to client departments is weak and inconsistent. Justice Canada also does not know whether it is delivering legal services cost-effectively.

The Department has made progress since our 1993 audit, mainly in managing the outside lawyers or law firms ("legal agents") it hires for prosecutions (which are now the responsibility of the Public Prosecution Service of Canada, a new organization separate from Justice Canada). However, we believe the Department would benefit from having a senior executive position with authority for management practices and the administration of legal services.

Use of Acquisition and Travel Cards

Acquisition and travel credit cards can be a convenient and efficient way for the federal government to obtain and pay for goods and services, and many federal departments are encouraging their use. With spending power placed directly in the hands of thousands of government employees with numerous operational needs, it is important that the use of these cards be properly managed and the associated risks taken into account. Acquisition card spending rose from $350 million in 1999 to over $626 million in 2005, and travel card spending rose from $170 million to about $200 million.

We examined the acquisition and travel card programs in National Defence, Fisheries and Oceans Canada, and Health Canada—the three departments that together account for about half of the total acquisition card use and a large portion of the travel card use in the government. We are pleased to report that our audit identified no cases of loss or abuse.

We found that all three departments have adequate controls over the use of travel cards. For acquisition cards, the control framework relies significantly on post-payment verification and certification to ensure that transactions are properly authorized.

We found that these key controls are not applied consistently and rigorously among the three departments or within each department. Lapses in the control and review of transactions leave departments exposed to risk. Moreover, post-payment verification and certification are not merely administrative niceties—they are an important application of law (section 34 of the *Financial Administration Act*).

We also found that government-wide policies on the use of acquisition cards have not been updated to reflect the considerable evolution and increase in their use over the last decade. For example, the cards are now used for very high-dollar purchases, and some cards have high credit limits—one as high as $1.5 million at one of the departments we examined. Also, both National Defence and Fisheries and Oceans Canada issue acquisition cards in the names of vessels or organizational units and not in the names of specific individuals. While this practice is not consistent with the government's present policy, departments have said it is practical from an operational point of view. Their position might be reasonable, but they have not received the Treasury Board's formal approval to issue the cards in this way. Clearly, a change in practice or a change in policy is in order.

Conclusion

I hope that parliamentarians find the information in this report useful in holding the government to account for its stewardship of public funds and its delivery of services to Canadians.

Main Points—Chapters 1 to 7



Use of Acquisition and Travel Cards

Chapter 1 Main Points

What we examined

Acquisition cards are essentially credit cards that enable departments to purchase and pay for goods and services. The designated travel card is a credit card that government employees use for expenses such as hotels, car rental, and meals while they are travelling on business. We examined the acquisition and travel card programs in National Defence, Fisheries and Oceans Canada, and Health Canada, the three departments that together account for about half of the total acquisition card use and a large portion of the travel card use in the government. We also looked at the roles that the Treasury Board Secretariat (TBS) and Public Works and Government Services Canada (PWGSC) play in providing overall direction and guidance for these programs.

Why it's important

Acquisition and travel cards can be a convenient and efficient way for the federal government to obtain and pay for goods and services, if it properly manages the associated risks. The use of acquisition and travel cards by federal government departments is growing, and many departments are encouraging their use to pay for goods and services and travel-related expenditures. Between 1999 and the end of 2005, acquisition card spending increased from more than $350 million to more than $600 million, and travel card spending from about $170 million to approximately $200 million.

Periodically some misuse of acquisition or travel cards does occur in the government, receiving significant publicity and raising doubt about the adequacy of the controls in place. It is important that parliamentarians and Canadians be assured that public resources are not misused or abused by those who have access to convenient methods of paying for goods and services.

What we found

- We identified no losses or abuse in our audit sample of acquisition card transactions. A framework of controls is in place to reduce the risks that acquisition cards are used improperly or without authorization. The control framework relies on post-payment verification and certification under section 34 of the *Financial Administration Act* (FAA) as the key control over the risks associated

with the cards. However, it and other key controls and safeguards required by the FAA are not applied rigorously by departments. Lapses in the control and review of transactions leave departments exposed to risk.

- The use of acquisition cards has evolved and increased considerably since 1998, when the current Treasury Board policy came into effect. For example, at National Defence and Fisheries and Oceans Canada, cards are now being used for very high-dollar purchases, and some cards have high credit limits—one as high as $1.5 million. Departments are encouraging their employees to make even more use of the cards. Departments differ in how they interpret the policy and how they use the cards, while the Treasury Board Secretariat has not updated the policy to take into account the changes in practice.
- In both National Defence and Fisheries and Oceans Canada, acquisition cards are sometimes in the names of vessels or organizational units, rather than in the names of specific individuals. While this use is not consistent with the present Treasury Board policy, departments have said it has operational merit. Although their position might be reasonable, they have not received the Treasury Board's formal approval to use the cards in this way.
- The control framework for designated travel cards is adequate, given that the primary risk to the government is that it assumes the cardholder's personal liability only after 90 days from the original statement date, and the government can manage the risk of default by using salary-offset provisions. However, the Treasury Board Secretariat and Public Works and Government Services Canada have not updated the travel card policies and procedures to reflect the provisions in the contract with the current service provider, stating that it is the government and not the cardholder that is responsible for unpaid balances after 90 days.

The departments have responded. The departments are in general agreement with our recommendations. Their detailed responses follow each recommendation throughout the chapter.



Federal Loans and Grants for Post-Secondary Education

Human Resources and Social Development Canada and Canada Millennium Scholarship Foundation

Chapter 2 Main Points

What we examined

The Canada Student Loans Program of Human Resources and Social Development Canada (HRSDC) provides loans, Canada Access Grants, and Canada Study Grants to qualified students who need financial assistance for post-secondary education. The grants and the Millennium Bursary and Access Bursary programs of the Canada Millennium Scholarship Foundation are designed to help limit the amount of debt that recipients accumulate.

We examined whether the Department and the Foundation have appropriate controls to ensure that they manage their responsibilities with due care and in compliance with legislation and other requirements. We looked at the controls that the Canada Revenue Agency has in place to ensure that the collection of defaulted Canada Student Loans complies with requirements. We also examined whether the Department and the Foundation ensure that information on the programs is easy to find and understand and that services are accessible and convenient. We examined how they measure their programs' performance and report results. We did not examine the activities of the other partners in delivering the loan, grant, and bursary programs—the provinces and territories, and two private sector service providers contracted by HRSDC to handle most day-to-day operations of the Canada Student Loans Program.

Why it's important

The federal government has said that Canada's international competitiveness depends on having an educated and skilled labour force. To improve access to higher education is the main objective of both the Canada Student Loans Program and the Foundation. To this end, HRSDC loaned $1.9 billion to some 350,000 post-secondary students in 2005–06 and awarded 78,500 grants amounting to about $129 million. In 2006 the Foundation awarded about $298 million in Millennium Bursaries to some 100,000 students and over $40 million in Access Bursaries to more than 20,000 students.

What we found

- With a few exceptions, the Canada Student Loans Program is well managed. The Department has the necessary controls in place for disbursing loans and grants; it also obtains reasonable assurance

that its partners in delivering the Program are fulfilling their responsibilities. However, it does not have a clear strategy for measuring whether the Program has improved access to post-secondary education. Further, the Department has postponed completing its evaluation of the Program from 2006 to 2011.

- The Foundation's bursary programs are well managed. The Foundation has the necessary controls in place to ensure that eligibility for bursaries is assessed correctly and that payments are issued in the right amounts to the right people. It also obtains reasonable assurance that the provinces and territories are fulfilling their responsibilities in delivering the programs. The Foundation collects adequate information to report its achievements against objectives, and it meets its obligation to report the results of its activities to Parliament.
- The Department and the Foundation are taking steps to make prospective post-secondary students and their families more aware of the financial assistance available to them. The Department has also improved its communication to students about measures available to help manage their debts.
- The Canada Revenue Agency monitors the performance of private collection agencies, and Human Resources and Social Development Canada monitors the consistency of the information the agencies provide. However, neither organization adequately monitors the agencies' compliance with key collection requirements of the Canada Student Loans Program. The Canada Revenue Agency has contracted with private collection agencies to handle about $450 million of the $800 million in defaulted loans owed to HRSDC (at 31 March 2006); it handles the remaining $350 million itself.
- HRSDC and the Foundation have developed a good research relationship with one another. However, they do not have adequate arrangements for consulting each other to achieve their shared objective of improved access to post-secondary education.

Human Resources and Social Development Canada, the Canada Revenue Agency, and the Canada Millennium Scholarship Foundation have responded. The Department, Agency, and Foundation have agreed with each of our recommendations and have committed to taking action. Their responses are included throughout the chapter.



Human Resources Management
Foreign Affairs and International Trade Canada

Chapter 3 Main Points

What we examined

The Department of Foreign Affairs and International Trade operates in a highly challenging and complex environment that requires it to respond quickly to changing local and international circumstances. It has staff based in Canada and in over 170 missions abroad, where it also employs a culturally diverse local workforce of over 5,000 employees who are subject to various local labour laws. In the 2005–06 fiscal year, the Department spent $830 million on salaries and benefits.

We examined whether the Department plans for and manages its human resources in a way to ensure that it has the people with the right skills and competencies to carry out its mandate. Our audit included interviews, file reviews, and data analysis at the Department's headquarters in Ottawa and at 12 of its missions abroad.

Why it's important

Canada relies on the people who work in its foreign missions to be its "face abroad." They represent Canada in such fields as political, trade and business relations, diplomacy, culture, and human rights. Canadians travelling abroad depend on the missions for a range of assistance, from replacing lost passports to determining their whereabouts, and seeing to their safety in emergency situations. The government relies on the Department for timely, high-quality advice on international issues to help it formulate foreign policy. The Department also has a position of leadership toward other government departments operating abroad to ensure a unified Canadian approach.

It is important to Canadians that the Department have the right people in the right place at the right time and that it be able to act quickly and decisively in a rapidly changing environment. Given the complexity of its workforce, its international role, and the demographic challenge it faces, strategic planning and management of its human resources are critical to achieving its mandate.

What we found

- The Department has no strategic human resources plan. It does not have a complete picture of the people, competencies, and experience it will need in the future, and it lacks basic information needed to

plan for and manage its workforce. For example, it does not have accurate information on the number of vacant positions it has to fill. Until recently, the Department has paid little attention to human resources planning. Since the 2005–06 fiscal year, it has engaged in a major effort to develop a strategic planning framework for managing its people, but much remains to be done.

- The Department has been unable through its recruitment, promotion, and assignment processes to fill its positions on a timely basis with enough people who have all the required skills and competencies. Fifty-eight per cent of its employees in the management category will be eligible to retire by 2010; for all categories combined, the figure is 26 percent. Already, departures now outnumber new hires. These are strong indications that the Department is at risk of not having the human resources it will need to carry out its mandate effectively.
- The process in place to compensate employees for living conditions abroad and provide incentives for hardship postings has not allowed the Department to respond in a timely way to changing circumstances and the problems employees face as a result. This hinders the Department's ability to assign qualified staff to some of its missions around the world. Despite concerns expressed over many years by our Office and various stakeholders, this issue has not been resolved.
- The management of locally engaged staff, who constitute half of the Department's workforce, gets little attention. The Department does not have all the information it needs to properly manage these employees and is not adequately supporting its missions in their human resources management responsibilities.

The Department of Foreign Affairs and International Trade and the Treasury Board Secretariat have responded. The Department of Foreign Affairs and International Trade and the Treasury Board Secretariat have agreed with our recommendations. Their detailed responses follow the recommendations throughout the chapter.



Canadian Agricultural Income Stabilization

Agriculture and Agri-Food Canada

Chapter 4 Main Points

What we examined

The Canadian Agricultural Income Stabilization (CAIS) program is a federal-provincial-territorial program whose objective is to protect agricultural producers from drops in income due to circumstances beyond their control. The program is administered by Agriculture and Agri-Food Canada for all of Canada except Alberta, Ontario, Quebec, and Prince Edward Island, where the provincial governments administer the program. We did not audit the provinces' delivery of the CAIS program.

We conducted this audit at the request of the House of Commons Standing Committee on Agriculture and Agri-Food. We examined how the Department processes applications for income support, ensures that all parties are respecting the various monitoring provisions set out in the federal-provincial-territorial agreements, and measures and reports its performance to Parliament.

Why it's important

The federal government has provided income support programs to farmers for decades. Agriculture and Agri-Food Canada receives about 55,000 applications to CAIS each year. In the 2005–06 fiscal year, the Department spent about $1.1 billion Canada-wide, making the CAIS program the Department's principal ongoing program of farm income support.

What we found

- The CAIS program is very complex, and the Department does not make it transparent enough to producers; some have complained that they do not understand how the Department calculates their benefits. For example, when the Department changes financial or other information that producers submit, it does not explain the impact on the benefit amount. Consequently, producers do not receive, in an easy to understand manner, all the information they need to decide whether to ask for a payment adjustment or appeal an unfavourable decision. Further, there are long delays before producers are told whether they will receive a benefit and in what amount.

- The Department focuses on preventing and detecting overpayments made to producers, and the onus is on producers to question incorrect figures in the Calculation of Program Benefits statement sent by the Department. Improving transparency would make program delivery more consistent with the program's objective, as set out in the *Farm Income Protection Act*—to protect the income of producers.
- Payment errors have been high, although they are beginning to decline. Staff who calculate payments work to standards that emphasize the number of applications processed and adherence to procedures more than accuracy of payments. While the Department collects data on the amounts and nature of the errors, it does not systematically use that information to improve its management of the program.
- Some employees who processed applications also worked as private consultants to help producers prepare their applications. We are concerned that such conflicts of interest could provide an unfair financial advantage to some applicants.
- Some of these problems are not new; our past audits of previous farm income support programs have found similar problems.

The Department has responded. In its response to each recommendation throughout the chapter, Agriculture and Agri-Food Canada has indicated the actions it has taken, will take, or will consider taking.



Managing the Delivery of Legal Services to Government

Department of Justice Canada

Chapter 5 Main Points

What we examined

Each department and agency of the federal government requires legal counsel to provide it with legal advice, to draft regulations and legislation, and to represent it in court. The Department of Justice Canada (Justice Canada) provides these services to all departments and agencies, with a few exceptions. In addition, it enforces regulations and legislation through prosecution, and examines the need for changes in legislation. We examined whether the Department effectively manages the delivery of legal services to meet the needs of government. We also looked at whether it takes appropriate steps to ensure the quality of the legal services and whether it delivers them in a cost-effective manner.

Up to the end of our examination, prosecution services were provided by the Federal Prosecution Service—a branch of Justice Canada—and were included in our audit scope. Prosecution services became the responsibility of the Public Prosecution Service of Canada when it was created under the *Federal Accountability Act,* which received royal assent on 12 December 2006. This new organization is separate from Justice Canada and reports to the Attorney General. Our findings and recommendations relate to the work now carried out by the Public Prosecution Service of Canada as well as the work of Justice Canada.

Why it's important

Canadians rely on lawyers to provide them with advice on, for example, purchasing or selling property, entering contracts, or settling disputes. Government departments and agencies rely on their lawyers for the same services. Justice Canada also covers a range of legal advisory, litigation (including prosecution), and legislative services. The Department's job is complicated by the fact that its lawyers represent the interests not only of each client department but also of the government as a whole.

Approximately 2,500 lawyers work for Justice Canada. Since our last audit in 1993 the annual cost of the Department's legal services has more than tripled to over $600 million. This significant increase is attributed to growing complexity and volume of litigation and prosecutions, as well as the growth in demand for legal services to

departments since the introduction of the 1982 Charter of Rights and Freedoms. The Department has also faced more demand for its services in areas such as Aboriginal affairs, taxation, drug prosecutions, and immigration.

What we found

- The Department puts considerable effort into ensuring the quality of the legal services it provides to the government—its stated objective. While it does not have an overall quality management system, it uses several practices to promote quality. To date, its quality management efforts have focused on complex and high-risk litigation. It has also invested in information systems, development of guide books, and training and development of its staff. However, the Department has not expressed what it means by quality. This impedes its ability to deliver consistent quality of service to its 42 client departments and assess whether it is meeting its objective. It also lacks a system to provide senior management with ongoing assurance that all services meet established minimum standards.
- The Department lacks information on the volume of its work and its use of staff—information that would demonstrate whether it is delivering legal services cost-effectively. It has some time-keeping data for some lawyers, but recording time worked has only recently become a department-wide requirement. Justice Canada does not collect and use department-wide financial and workload information for monitoring trends, planning, setting priorities, managing resources, analyzing service delivery options, or identifying opportunities to control costs.
- Justice Canada shares the cost of legal services with departments. It has numerous financial arrangements with client departments—more than 100 arrangements with the eight departments we interviewed. Its financial arrangements are inconsistent, poorly documented, and inefficient to administer. Justice Canada has little incentive to control the costs of its services, because any unanticipated costs of legal services are borne by the client departments involved. Client departments also have little incentive to control their legal costs, which they are able to absorb as a small percentage of their total costs; for significant costs they can seek additional funding through the Treasury Board. Without good information on costs, it is difficult to manage and control the growing demand in departments for legal services and to find more efficient ways of providing them.

- The total costs of legal services incurred across the government are not consolidated for reporting to Parliament. Justice Canada reports the total costs of its legal services and the total amount recovered from departments. Each client department might report the costs of the legal services provided to it by Justice Canada, but other legal costs paid by departments are not readily identifiable because they are not reported separately from other operating expenditures.
- Much of what we found had been identified in our 1993 audit as weaknesses. The Department has made progress in managing legal risk, managing legal agents, and introducing time-keeping into the Department. However, we found no evidence of results in some important areas, despite efforts by the Department—notably the use of department-wide information on workload and human resources and its financial arrangements with client departments.

The Department has responded. The Department of Justice Canada agrees with each of our recommendations. Its detailed response follows each recommendation throughout the chapter.



Modernizing the NORAD System in Canada

National Defence

Chapter 6 Main Points

What we examined

Canada and the United States are partners in the air defence of North America under the North American Aerospace Defense (NORAD) agreement. Under this agreement, Canada and the US operate an integrated and interoperable air surveillance and control system to secure North American airspace. In 1997, the two countries agreed to upgrade and modernize this system. Originally, the Canadian government approved funding for about $93 million to modernize the Canadian portion of the NORAD system—the Canadian Air Defence Sector Air Operations Centre. Since the original approval for modernization, the project has undergone several changes and cost increases. We examined how the modernization has progressed, what it has cost National Defence, and what has been delivered.

Why it's important

Heightened security demands since September 11, 2001, have put emphasis on the need to modernize the NORAD surveillance and control systems. National Defence has a significant investment in the modernization project and needs to implement it in a way that is cost-effective and ensures that operational requirements are met. In May 2006, Canada and the United States renewed the NORAD agreement to continue operations in both countries.

What we found

- Modernization was originally expected to cost National Defence $87 million, plus about $6 million for a definition phase, and was to be completed by 2001. However, we estimate that the Department has spent about $125 million so far, and bringing the modernization to completion is expected to cost another $18 million. Other related expenses of about $13 million will bring the expected total cost to about $156 million. The project took longer than planned to deliver and has cost more than initially expected because of problems with system development and project management. Recently, the Department successfully installed a new air surveillance and control system at its sector air operations centre, and it reports that the system is meeting initial operating requirements. However, anticipated savings of up to $16 million a year in personnel and operating costs have not materialized.

- Neither National Defence nor the government made appropriate use of mechanisms available for managing large, high-risk projects like this one. Early signs that the project was in trouble and that costs were climbing did not prompt moves to strengthen its oversight. We asked why, for example, a decision was not made at the time to designate this a Major Crown Project. Treasury Board Secretariat officials initially declined to provide us access to the working papers on this issue because they viewed these as cabinet confidences. At the conclusion of the audit and after a search, Treasury Board Secretariat officials assured us that there were in fact no Treasury Board Secretariat working papers to provide to us.
- Information provided to the government for increased project funding was not always timely or accurate, and did not always reflect the risks of the project or how its scope had changed.
- National Defence entered into an agreement with the United States Department of Defense as an equal partner, during the development phase of the first effort to implement a new air surveillance and control system, and on that basis it agreed to pay 50 percent of common costs. Yet it could not provide us with evidence to demonstrate that it had in fact shared control of the project. Later, problems appeared in the Department's ability to control its own development of a second, replacement air surveillance and control system, which it was working on for the Canadian Air Defence Sector. Work on this second system was stopped in favour of a third system developed for NORAD, mainly with US Department of Defense input into the requirements. This air surveillance and control system has now been installed and is operating at the Canadian Air Defence Sector Air Operations Centre. Future modernization and upgrade work is planned, but National Defence still has not clearly set out its own Statement of Operational Requirement and needs to review requirements before continuing.

National Defence has responded. The Department agrees with our recommendations and is proposing actions to address concerns.



Management of Forensic Laboratory Services

Royal Canadian Mounted Police

Chapter 7 Main Points

What we examined

The Forensic Laboratory Services (FLS) of the Royal Canadian Mounted Police (RCMP) provides forensic analysis services for criminal cases to Canada's law enforcement community, which includes Canadian police agencies, Crown counsel, and other federal, provincial, and municipal agencies. It operates laboratories in six cities across Canada.

In 2005, the House of Commons Standing Committee on Justice and Human Rights, Public Safety and Emergency Preparedness heard conflicting testimony on the performance of the Forensic Laboratory Services. The Committee subsequently asked the Auditor General of Canada to audit the performance of the FLS, and the status of DNA cases and service requests. We examined the timeliness of service delivery by the FLS, the quality management system, consultation with clients, and performance reporting to Parliament. We did not audit the quality of the forensic science and offer no opinion, positive or negative, on the validity of scientific analysis used.

Why it's important

The RCMP's Forensic Laboratory Services is the main provider of forensic analysis for most police agencies and courts in Canada. Forensic labs are an important element of the criminal justice system. Investigators and prosecutors rely on forensics to help identify or eliminate suspects and to provide evidence that can withstand scrutiny in court. Delays in obtaining results of forensic analysis can slow police investigations and leave criminals on the street to reoffend.

What we found

- For the most part the FLS does not meet its own turnaround targets for completing service requests. Although it can process urgent service requests in less than 15 days, they account for only 1 percent of all service requests. In the remaining 99 percent categorized as routine, the FLS is unable for the most part to meet the 30-day target it has set for them. While average turnaround times have improved for all other types of analysis, for DNA analysis requests they have worsened—from 91 days in 2003–04 to 114 days in 2005–06—despite increased spending and additional staff. The backlog of DNA requests is a major contributor to the long turnaround times.

- Although the labs now have a national quality management system in place, in practice there are significant weaknesses in how the FLS defines, records, monitors, and resolves quality issues (situations where there is a concern that the validity of forensic work is unreliable for any reason), including those related to lab results. Furthermore, the national quality management system failed to identify problems with the new automated process for DNA analysis. At the conclusion of our audit work, the FLS quality management system was not functioning as designed and could not provide assurance of quality to senior management.
- The RCMP does not give clients—police forces and prosecutors—adequate opportunity to influence how the FLS operates. For example, clients told us that although the RCMP conducts client visits, it consults them very little on their needs regarding matters such as changes to the labs' services, priorities, and service standards. Clients have little opportunity to negotiate turnaround times for service requests, and a recent change in policy gives them little say in the number of exhibits they are allowed to submit—no more than eight with each request.
- Although its new Laboratory Information Management System enables it to examine the performance of the FLS, the RCMP is not keeping its commitment to report to Parliament on performance; nor is it reporting to clients on FLS performance.

The RCMP has responded. The RCMP agreed to our recommendations and is preparing action plans to address them.

Report of the Auditor General of Canada to the House of Commons—May 2007

Main Table of Contents

	A Message from the Auditor General of Canada **Main Points—Chapters 1 to 7**
Chapter 1	Use of Acquisition and Travel Cards
Chapter 2	Federal Loans and Grants for Post-Secondary Education—Human Resources and Social Development Canada and Canada Millennium Scholarship Foundation
Chapter 3	Human Resources Management—Foreign Affairs and International Trade Canada
Chapter 4	Canadian Agricultural Income Stabilization—Agriculture and Agri-Food Canada
Chapter 5	Managing the Delivery of Legal Services to Government—Department of Justice Canada
Chapter 6	Modernizing the NORAD System in Canada—National Defence
Chapter 7	Management of Forensic Laboratory Services—Royal Canadian Mounted Police

CA1
AG
- A55

2007



Report of the Auditor General of Canada to the House of Commons

MAY

Chapter 1
Use of Acquisition and Travel Cards

Office of the Auditor General of Canada



2007



Report of the

Auditor General of Canada

to the House of Commons

MAY

Chapter 1
Use of Acquisition and Travel Cards

Office of the Auditor General of Canada

The May 2007 Report of the Auditor General of Canada comprises A Message from the Auditor General of Canada, Main Points—Chapters 1 to 7, and seven chapters. The main table of contents for the Report is found at the end of this publication.



The Report is available on our website at www.oag-bvg.gc.ca.

For copies of the Report or other Office of the Auditor General publications, contact

Office of the Auditor General of Canada
240 Sparks Street, Stop 10-1
Ottawa, Ontario
K1A 0G6

Telephone: 613-952-0213, ext. 5000, or 1-888-761-5953
Fax: 613-943-5485
Hearing impaired only TTY: 613-954-8042
Email: distribution@oag-bvg.gc.ca

Ce document est également publié en français.

© Minister of Public Works and Government Services Canada 2007
Cat. No. FA1-2007/2-1E
ISBN 978-0-662-45617-9

Chapter



Use of Acquisition and Travel Cards

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Table of Contents

Main Points 1

Introduction 3

What are acquisition cards, and how are they managed? 3
What are travel cards, and how are they managed? 4
Focus of the audit 5

Observations and Recommendations 5

Policies and procedures 5

Government-wide policies need to be updated 5
The existing policy on travel cards does not reflect the terms of the current contract with the service provider 7
Training practices for departmental coordinators and quality assurance personnel are lacking 8

Verification and monitoring of card transactions 10

Centralized payment of acquisition card transactions requires modifications to key controls 10
The quality of the verification and certification processes over acquisition card transactions varies 11
Controls over monitoring travel card transactions and delinquencies vary 16

Information for managing card programs 17

Management information for monitoring acquisition card usage is exception-based 17
Management information for monitoring travel card usage is appropriate 18
Internal audit and reviews are performed 19
Information on efficiencies achieved is not fully quantified 19

Sharing of best practices 21

Use of best practices by departments can be increased 21

Conclusion 23

About the Audit 25

Appendix

List of recommendations 28



Use of Acquisition and Travel Cards

Main Points

What we examined

Acquisition cards are essentially credit cards that enable departments to purchase and pay for goods and services. The designated travel card is a credit card that government employees use for expenses such as hotels, car rental, and meals while they are travelling on business. We examined the acquisition and travel card programs in National Defence, Fisheries and Oceans Canada, and Health Canada, the three departments that together account for about half of the total acquisition card use and a large portion of the travel card use in the government. We also looked at the roles that the Treasury Board Secretariat (TBS) and Public Works and Government Services Canada (PWGSC) play in providing overall direction and guidance for these programs.

Why it's important

Acquisition and travel cards can be a convenient and efficient way for the federal government to obtain and pay for goods and services, if it properly manages the associated risks. The use of acquisition and travel cards by federal government departments is growing, and many departments are encouraging their use to pay for goods and services and travel-related expenditures. Between 1999 and the end of 2005, acquisition card spending increased from more than $350 million to more than $600 million, and travel card spending from about $170 million to approximately $200 million.

Periodically some misuse of acquisition or travel cards does occur in the government, receiving significant publicity and raising doubt about the adequacy of the controls in place. It is important that parliamentarians and Canadians be assured that public resources are not misused or abused by those who have access to convenient methods of paying for goods and services.

What we found

- We identified no losses or abuse in our audit sample of acquisition card transactions. A framework of controls is in place to reduce the risks that acquisition cards are used improperly or without authorization. The control framework relies on post-payment verification and certification under section 34 of the *Financial Administration Act* (FAA) as the key control over the risks associated

with the cards. However, it and other key controls and safeguards required by the FAA are not applied rigorously by departments. Lapses in the control and review of transactions leave departments exposed to risk.

- The use of acquisition cards has evolved and increased considerably since 1998, when the current Treasury Board policy came into effect. For example, at National Defence and Fisheries and Oceans Canada, cards are now being used for very high-dollar purchases, and some cards have high credit limits—one as high as $1.5 million. Departments are encouraging their employees to make even more use of the cards. Departments differ in how they interpret the policy and how they use the cards, while the Treasury Board Secretariat has not updated the policy to take into account the changes in practice.
- In both National Defence and Fisheries and Oceans Canada, acquisition cards are sometimes in the names of vessels or organizational units, rather than in the names of specific individuals. While this use is not consistent with the present Treasury Board policy, departments have said it has operational merit. Although their position might be reasonable, they have not received the Treasury Board's formal approval to use the cards in this way.
- The control framework for designated travel cards is adequate, given that the primary risk to the government is that it assumes the cardholder's personal liability only after 90 days from the original statement date, and the government can manage the risk of default by using salary-offset provisions. However, the Treasury Board Secretariat and Public Works and Government Services Canada have not updated the travel card policies and procedures to reflect the provisions in the contract with the current service provider, stating that it is the government and not the cardholder that is responsible for unpaid balances after 90 days.

The departments have responded. The departments are in general agreement with our recommendations. Their detailed responses follow each recommendation throughout the chapter.

Introduction

What are acquisition cards, and how are they managed?

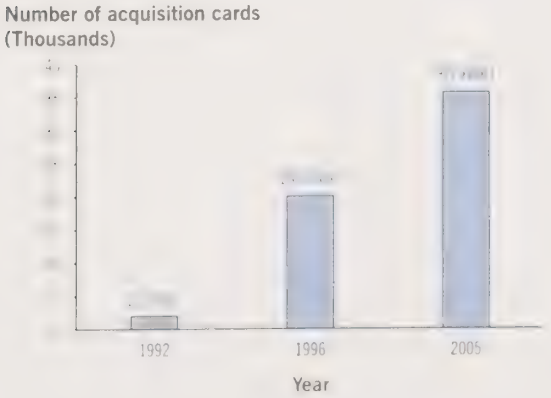
1.1 Acquisition cards are credit cards that enable departments to purchase and pay for goods and services. They were initially approved for use in government departments and agencies in 1991 and are now offered through contracts with two Canadian banks. The Bank of Montreal (BMO) provides MasterCard credit card services, and the Canadian Imperial Bank of Commerce (CIBC) provides Visa credit card services. Departments can use either or both of these acquisition card services, depending on their operational needs.

1.2 The contracts with the service providers offer a rebate program, payable directly to the departments. Rebates are based on variables such as the level of expenditures on the cards and how quickly departments pay the balance owing.

1.3 Since their introduction, the use of acquisition cards has increased significantly. The acquisition card program started in 1991, and by 1992 there were approximately 2,000 cards in use. In 1996, the period examined in our first audit on acquisition cards, the government had approximately 20,000 cards, and transactions were valued at about $170 million. As of December 2005, approximately 35,600 cards were in use, with transactions exceeding $600 million (Exhibit 1.1).

1.4 Until 1 September 2006, the Treasury Board Secretariat (TBS) was responsible for contracts with the service providers, policy, and

Exhibit 1.1 The number of acquisition cards used in the federal government increased substantially from 1992 to 2005



oversight of the operations of the acquisition card program. After this date, Public Works and Government Services Canada (PWGSC) assumed responsibility for contracts with the service providers and program oversight. The Treasury Board is still responsible for government-wide policy regarding acquisition cards.

1.5 Departments are responsible for establishing specific departmental policies and procedures to ensure the economical and efficient use of acquisition cards, and for designating a departmental coordinator. Each departmental coordinator is responsible for the following:

- authorizing and issuing acquisition cards,
- monitoring program design to ensure reliable controls exist over the use of cards, and
- managing their department's card programs.

Finally, departments are also responsible for carrying out reviews and audits to determine whether cards are being used according to Treasury Board policy.

What are travel cards, and how are they managed?

1.6 The "designated travel card" is a credit card that individual government employees use to pay expenses such as hotel, car rental, and meals while they are travelling on business. Employees are responsible for paying their own travel card balances and are reimbursed for these business expenses, once they complete a travel claim. Staff who arrange travel for each responsibility centre also use the "designated-responsibility-centre travel card" to pay airfares and travel agency fees.

1.7 Through a subcontract with Accenture, American Express (AMEX) is the travel card service provider. The government earns rebates, based primarily on the total expenditures relating to both the designated travel cards and the designated-responsibility-centre travel cards.

1.8 In 2005 government employees used designated travel cards to make approximately $200 million in purchases; this was an increase from about $170 million in 1999.

1.9 PWGSC has overall responsibility for managing the travel card program. Departments are responsible for authorizing, issuing, monitoring, and cancelling the use of travel cards. Both employees and the department play an important role in managing the travel card

program. If an employee fails to pay the outstanding card balance after 90 days, the liability for this outstanding balance is transferred to the government. In such cases, the department must then recover the money from the employee.

Focus of the audit

1.10 The audit focused on three departments: Fisheries and Oceans Canada, Health Canada, and National Defence. These three departments are among the largest users of travel cards and account for about half of the government's expenditures on acquisition cards.

1.11 We looked at whether the management control framework over the use of the acquisition cards and designated travel cards (travel cards) is appropriate and whether the government is aware of the extent of the intended benefits realized from these programs. We did not include as part of this audit the management of the designated-responsibility-centre travel cards that are used by responsibility centres to pay for airfares and travel agency fees.

1.12 Our audit focused on the processes for managing the card programs in the three departments—not on the merits of individual expenditures. We also assessed the roles of the Treasury Board Secretariat and Public Works and Government Services Canada in providing overall direction and guidance on these programs.

1.13 More details on the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Observations and Recommendations

Policies and procedures

1.14 Appropriate policies from the Treasury Board are critical to delivering any program. No less important are appropriate procedures and guidelines at the departmental or operational level. This is particularly true for acquisition and travel card purchasing, where spending power is placed directly in the hands of thousands of government employees with numerous operational needs.

Government-wide policies need to be updated

1.15 In 1998, the Treasury Board revised its Policy on Acquisition Cards. This policy emphasized the need for additional controls at the departmental level for improved monitoring and analysis, and for the

use of information supplied by the service providers in an electronic format. The Treasury Board Secretariat also issued the *Acquisition Cards Program—Best Practices Guide* in 1998 and the *Acquisition Cards Program—Management Guide* in 1999. These documents contain useful information on the history, use, and benefits of acquisition cards. They also describe the acquisition card control framework, recommend practices for acquisition card use, and highlight internal controls that will assist managers in monitoring acquisition card activities.

1.16 There have been no updates to the Treasury Board Policy on Acquisition Cards or either of the guides since they were issued. We note that the Treasury Board Secretariat's *Acquisition Cards Program—Best Practices Guide* refers to a future version of the guide that would cover topics such as best practices and provide advice on types of purchases, card limits, and **delegated financial authorities**. With the changing environment in the use of acquisition cards, namely the increase in the number of cardholders, increase in total dollars spent on the cards, and the use of the cards for high-dollar transactions, it is important that control processes and guidance not become outdated. This could possibly expose the government to additional risks. The Treasury Board is currently updating its Policy on Acquisition Cards.

Delegated financial authority—Occurs when government authorizes a specific individual to initiate or approve financial transactions, within established limits.

1.17 At the departmental level, we found that the three departments examined had generally developed and issued specific acquisition card policies and directives consistent with the policy established by the Treasury Board. However, the departmental policies of both Fisheries and Oceans Canada and National Defence permit acquisition cards to be issued in the name of an operational unit or a vessel, rather than in the name of individuals. We found that such cards in fact exist. Although we can understand that these "corporate" cards provide flexibility, the current service-provider contracts make no specific reference to such cards, and the Treasury Board Policy on Acquisition Cards states that only the "person whose name appears on the card" can use it.

1.18 We also found that the Health Canada acquisition card policy did not explicitly restrict cardholders from approving their own acquisition card expenditures and that such situations were, in fact, occurring. This policy and practice is, in our opinion, not consistent with the fundamental control principle that there be a division of duties between those executing a transaction and those approving the subsequent expenditures. As this audit was being completed, Health Canada was in the process of revising its departmental acquisition card policy to eliminate this practice.

1.19 Recommendation. The Treasury Board Secretariat should update the policy with respect to acquisition cards including whether "corporate" acquisition cards should be permitted.

The Treasury Board Secretariat's response. The Treasury Board Secretariat agrees with the recommendation. As part of the renewal of Treasury Board's financial management policies, the *Directive on Acquisition Cards* is being updated. The revised directive will not permit the issuance of acquisition cards in the name of an organization or asset, such as a vessel, as it would have an impact on the government's ability to monitor and control the usage of the card as well as on the merchant's ability to accept the card as payment. Forecasted completion for the updated directive is 31 March 2008.

The existing policy on travel cards does not reflect the terms of the current contract with the service provider

1.20 The Treasury Board Policy on Using Travellers Cheques, Travel Cards and Travel Accounts, which is scheduled to be replaced with a Treasury Board directive on travel cards, governs the use of travel cards within the government. Public Works and Government Services Canada (PWGSC) has overall responsibility for managing the travel card program. In this respect, PWGSC has regular communications with AMEX and departments regarding the use of the designated travel card.

1.21 The Treasury Board policy came into effect on 1 January 1998, and was amended in March 2000. We found that it does not reflect the terms of the current contract between the government and Accenture, with AMEX as the subcontractor. The contract states that full payment for unpaid balances on travel cards will be made by the government after 90 days, whereas the policy leaves payment responsibility with the cardholder.

1.22 At the time of our audit, we found that only Fisheries and Oceans Canada had a travel card policy in place. Both Health Canada and National Defence indicated that they had draft travel card policies, which were being finalized.

1.23 We noted that all three departments had effectively communicated information to travel cardholders about the issue of transferring the payment responsibility from the employee to the government, as stated in the latest contract with Accenture.

1.24 Recommendation. The Treasury Board Secretariat should complete and issue its directive on travel cards.

The Treasury Board Secretariat's response. The Treasury Board Secretariat agrees with the recommendation. As part of the renewal of Treasury Board's financial management policies, the *Directive on Travel Cards and Travellers Cheques* is being updated. Forecasted completion for the updated directive is 31 March 2008.

1.25 Recommendation. Public Works and Government Services Canada should provide departments and agencies with operational guidelines pertaining to the provisions of the contract with the travel card service provider, including guidelines pertaining to the responsibility of the government for unpaid travel card balances.

Public Works and Government Services Canada's response. Public Works and Government Services Canada agrees with this recommendation and will provide departments and agencies with operational guidelines pertaining to the provisions of the contract with the travel card service provider.

Training practices for departmental coordinators and quality assurance personnel are lacking

1.26 Training is a fundamental requirement to effectively implement policies and procedures. We expected that there would be training practices in place to ensure that those responsible for the use, processing, and oversight of acquisition and travel cards would be fully aware of their roles and responsibilities.

1.27 There is an absence of formal training for both the departmental and regional-level card coordinators in all three departments. Interviews with departmental card coordinators indicated that they had no specific training for their roles and responsibilities with the acquisition card program. We found evidence of informal on-the-job training being provided.

1.28 In the three departments, we found no evidence of formal training for those persons responsible for the **quality assurance of account verification of acquisition card transactions**. Those responsible for quality assurance require a good knowledge of the documentation and financial system information associated with acquisition cards and financial processes.

Quality assurance of account verification of acquisition card transactions—A practice that allows management to re-examine monthly transactions and to monitor compliance. During this re-examination some transactions and related documents are checked to make certain that the person with delegated authority has signed that the goods or services were provided and that the right price was paid.

1.29 Travel cards pose a lower level of risk, as the agreement between the cardholder and the government is clear and concise. In addition, the unpaid balances become a liability to the government only after 90 days. Further, with the salary-offset provisions, the government has limited exposure to losses. For these reasons, we did not expect that formal training would be provided to travel cardholders, but rather that their roles and responsibilities would be effectively communicated.

1.30 **Good communication with cardholders.** The results of our examination indicated that all three departments have good communication initiatives to ensure that the roles and responsibilities of cardholders for both acquisition and travel cards are documented and communicated. These initiatives include intranet references, policies, and procedures on the use of acquisition and travel cards; internal publications; and cardholder acknowledgement forms.

1.31 **Recommendation.** Fisheries and Oceans Canada, Health Canada, and National Defence should formalize training for regional and departmental coordinators and quality assurance personnel to ensure that information about all issues related to acquisition and travel card management within a department is understood by those personnel, and that the information is disseminated to program managers.

Fisheries and Oceans Canada's response. Fisheries and Oceans Canada agrees. Over the next 12 months, the Department will implement a training program for card coordinators and quality assurance personnel, and will improve the departmental coordination of card management and of the quality assurance function. In addition, the Department will take the necessary steps to inform card coordinators of the availability on the website of training material and tools accessible to them.

Health Canada's response. Health Canada agrees that training should be available for these groups and will explore alternatives for the delivery of training in respect of departmental coordinators, including the possible provision of this training through central agencies or the Canada School of Public Service.

National Defence's response. National Defence agrees. The Department is developing a range of training packages for all personnel involved in the use of acquisition and travel cards. It is expected that the formal training program will be implemented through regional coordinators over the course of 2007.

Verification and monitoring of card transactions

Centralized payment of acquisition card transactions requires modifications to key controls

1.32 Control frameworks are tools that help management in overseeing operations. An effective control framework incorporates controls that are appropriate for the benefits and risks of a given activity.

1.33 The control framework for acquisition cards uses controls to both prevent and detect problems, to reduce the risks that cards are not properly authorized or used, and to ensure that all corrective actions needed are taken. Key controls for acquisition cards are primarily based on the *Financial Administration Act* (FAA) and associated Treasury Board policies. The FAA requires that fundamental controls for procuring and paying goods and services be respected.

1.34 Under a traditional invoice the processes of procuring, paying, and verifying a purchase involve applying sections 32, 33, and 34 of the FAA. These three sections require the following:

- that funds be available and committed for the purchase (section 32);
- that no payment for a purchase be made unless it has been properly requisitioned (section 33); and
- that these goods or services be performed, supplied, or rendered, and the price be as stated in the contract—**verification**—and that the person with delegated financial authority signs that the verification has been completed—**certification**—(section 34).

Account verification and certification—Occurs when a person reviews a transaction to ensure that the goods or services were provided and that the price for the goods or services was the same as promised or expected (verification). Then a person with delegated financial authority signs the document to confirm that a review has been performed (certification). Together, both of these actions complete the requirement called "section 34 certification and verification."

All three steps usually take place when a purchase is formally requisitioned and approved before being made and before the invoice is paid. However, with acquisition card purchases in departments that use central billing, the money is paid before all these controls can be implemented.

1.35 Each of the three departments covered by this audit has a central billing process in place to pay acquisition card statements. With central billing, each department receives a consolidated statement from the service provider that incorporates all the cardholder statements across the organization. This combined statement enables each department to make one monthly payment to the service provider. Furthermore, this practice enables a department to make payments quickly (usually within four days) to maximize any rebates available. Being able to act promptly is advantageous, as the size of the rebates to a department is determined by the volume of transactions and the speed with which that department pays its service provider.

1.36 When using acquisition cards in a centralized billing process, departmental staff need to modify the key controls so that they can expedite payments and

- avoid interest charges,
- maximize rebates, and
- allow cardholders the flexibility to make purchases without requiring an excessive number of pre-approvals.

Therefore, departmental staff need to replace the traditional means of applying FAA controls with the exercise of careful control in authorizing and issuing acquisition cards, selecting the credit limit for each card, and applying the Treasury Board Policy on Account Verification.

1.37 The Treasury Board Policy on Account Verification outlines circumstances that allow account verifying and certifying to occur after the payment is made. The quality assurance requirements for the Policy state that those with payment authority must provide assurance that the process of verifying and certifying the purchase is adequate and is being properly and conscientiously followed. When this is the case, the Policy permits departments to apply the account verification required by section 34 after the central bill is paid, as long as the departments are satisfied that their preventive and detective controls are strict enough to reduce or eliminate errors in the payment of acquisition card transactions.

The quality of the verification and certification processes over acquisition card transactions varies

1.38 As part of our audit, we randomly selected 165 acquisition card transactions from the three departments during the 2005 calendar year. We tested whether these transactions had been properly verified and certified and that all were properly supported with invoices. We also tested whether there was proper authorization and approval of the acquisition card and whether cardholders acknowledged their roles and responsibilities (through completed acknowledgement forms).

1.39 Our testing found that all three departments were able to provide appropriate supporting documentation for each transaction. With respect to acknowledgement forms completed by the cardholders, Health Canada could not provide these forms in 38 percent of the cases, and similarly Fisheries and Oceans Canada was unable to provide the forms in 13 percent of the cases. In 99 percent of the cases, National Defence was able to provide these forms.

1.40 We found that the quality of verification and certification work varied widely among the three departments and within each department, as well. Specifically, the results of our testing indicated that the control framework is in place; however, it is not being applied consistently. The results of our examination indicate that the account verification and/or certification process (required by section 34) is not performed in a rigorous manner (Exhibit 1.2). We noted the following problems:

- transactions that had been approved for payment were not subsequently verified and certified;
- transactions were verified and certified by individuals that did not have the delegated authority; and
- transactions were verified and certified by the cardholders who made the transactions, rather than by another authorized individual.

Exhibit 1.2 The results of a statistical sample of acquisition card transactions highlight that account verification and/or certification is not rigorously applied

	National Defence	Fisheries and Oceans Canada	Health Canada
Total number of transactions	391,023	218,783	139,926
Sample size	60	60	45
Transactions without appropriate section 34 certification and/or verification	**45%**	**14%**	**21%**

1.41 Among the transactions without appropriate section 34 certification and/or verification, our testing revealed that at Health Canada, all of the transactions involved cardholders who had section 34 authority and who had approved their own card transactions. In our opinion, this practice is not consistent with the fundamental control principle that there be a division of duties between those executing and those approving the transactions. For National Defence, among the transactions without appropriate section 34 certification and/or verification, our testing identified 15 transactions where there was a signature under section 34. However, the department could not produce the signature cards to confirm that the person who was making the certification under section 34 had the delegated authority.

1.42 Our audit also found concerns with the quality assurance aspects of the section 34 verification and certification process, the establishment of credit limits, the card cancellation practices, and inventory control. Specifically, we found the following:

- The quality assurance work was inconsistent among the different departments. In addition, we found that the number of transactions that quality assurance staff reviewed, the nature of their review, the number of staff assigned to the reviews, and the timeliness of the reviews were different within the various regions of the three departments.

- Although Fisheries and Oceans Canada had established guidelines to assist in determining credit limits for acquisition cards, we found that, in some cases, the guidelines were not followed or credit limits were much greater than the expenditure pattern of the cardholder. In addition, we noted that only one of the four regions that we had visited had implemented a plan for a regular review of credit limits to ensure that the limits were in line with Fisheries and Oceans' guidelines. At National Defence, we also noted that there were no established guidelines with respect to credit limits for acquisition cards, that some of the cards had credit limits much greater than the expenditure pattern of the cardholder, and that there was no regular review of these credit limits to ensure they were appropriate for the circumstances.

- The procedures established for cancelling acquisition cards held by employees who had left a department were inconsistently applied in the three departments. For example, at Fisheries and Oceans Canada we found one case where seven employees continued to use the acquisition card of a former employee for government expenses, for one month before the card was cancelled. In addition, at National Defence we found a variation in procedures between military and civilian cardholders. We found strong procedures governing the cancellation of cards held by military personnel; however, departmental coordinators could not assure us that cards for civilian personnel were cancelled in a timely manner.

- When purchases met a department's threshold for being recognized as inventory items, they were not being consistently recorded in the departmental inventory management systems. Specifically, at National Defence we found that four of eight items were not recorded in the inventory management system, although we were able to physically locate all eight items.

1.43 Our audit also found that the acquisition card had been used for the payment of some very large transactions such as refuelling costs. Departments stated that such transactions fell within their delegated payment authority for acquisition card purchases and provided convenience in meeting operational needs. However, we found that these transactions represented a large percentage of the dollar value of transactions undertaken at Fisheries and Oceans Canada and National Defence (Exhibit 1.3).

1.44 As previously outlined, the control framework for acquisition cards effectively relies only on post-payment verification to ensure the appropriate payment of goods and services. As a result we identified high-dollar-value transactions as possibly being subject to a higher degree of risk of error. Therefore, we performed additional audit work on 21 of these transactions.

1.45 The results of our examination of these high-dollar-value transactions also identified failures to properly apply the post-payment verification controls. Specifically, the results of our testing indicated that six of these transactions did not have appropriate section 34 approval. It is our opinion that these high-dollar-value transactions are larger than the typical transactions that the Treasury Board Secretariat (TBS) had in mind when it developed the acquisition card program. For this reason, departments using the acquisition card for these transactions, need to ensure that they consider the inherent risk associated with these transactions and rigorously apply the post-payment verification procedures. The TBS must also ensure, as previously stated, that its policies and procedures are updated to

Exhibit 1.3 **Acquisition card transactions of amounts larger than $5,000 represent a large percentage of total dollars spent within two departments**

	National Defence	Fisheries and Oceans Canada	Health Canada
Total number of transactions	391,023	218,783	139,926
Total number of transactions larger than $5,000	2,509	1,093	33
Percentage of total number of transactions	**0.64%**	**0.50%**	**0.02%**
Total value of all transactions	$165,653,405	$ 87,922,678	$ 70,813,926
Total value of all transactions larger than $5,000	$ 29,024,824	$ 18,370,646	$ 170,808
Percentage of total dollars for transactions larger than $5,000	**17.52%**	**20.89%**	**0.24%**

address new risks that might occur with acquisition cards. These additional risks might include the use of acquisition cards for high-dollar-value transactions and the use of some very high credit limits on these cards—one in particular with a limit of $1.5 million. This update would include establishing any limitations or controls over such transactions that are considered necessary to protect the interests of the government as a whole.

1.46 Finally, while the randomly selected and high-dollar-value transactions of our audit did not identify any transactions that resulted in losses or abuse, we also examined the entire database of 2005 transactions for the three departments. Using data mining and analysis software, we identified some questionable transactions, considering the names of the vendors and the nature of the transactions. We performed additional analysis and enquiry of a number of these transactions. In all cases, we found that the post-payment verification controls of the department, combined with monitoring practices of the service provider and the department, had resulted in the timely resolution of any situations that could have subjected the government to a loss of funds.

1.47 We are aware that a risk of misuse exists in any program or payment method and that it is impossible for any control framework to be 100 percent accurate. However, the results of our examination of the controls for verifying and monitoring acquisition card transactions indicate that creating new or more controls is not the most essential step. Rather, it is essential to have departments apply their full attention and diligence to the task of ensuring that existing controls work as intended.

1.48 **Recommendation.** Fisheries and Oceans Canada, Health Canada, and National Defence should ensure that, on a timely basis, all acquisition card transactions are properly verified and certified, according to section 34 of the *Financial Administration Act* and as stated in the Treasury Board Policy on Account Verification.

Fisheries and Oceans Canada's response. Fisheries and Oceans Canada agrees. Since the period covered by the scope of the audit, the Department has required that the cardholder's supervisor or manager, who has the appropriate delegated signing authority, sign section 34 of the Acquisition Card Register. This practice will be monitored regionally.

Health Canada's response. All Health Canada acquisition card transactions are properly verified and certified in accordance with section 34; however, Health Canada will strengthen its acquisition

card policy to not permit cardholders to verify and certify, under section 34, transactions that the acquisition cardholders have processed.

National Defence's response. National Defence agrees. The Department has increased the level of post-payment compliance reviews to reinforce the importance of section 34 FAA verification and certification. This point is being emphasized as part of the formal training packages currently under development.

Controls over monitoring travel card transactions and delinquencies vary

1.49 Departments are responsible for authorizing, issuing, monitoring, and cancelling the use of travel cards and settling delinquent accounts. Employees are responsible for paying travel card balances and are reimbursed for business travel expenses, once they have completed a travel claim.

1.50 One risk for the government could arise if the employee uses a travel card for non-business purposes and fails to pay the card account balance on time. This means that the government then becomes liable for the account balance. Another risk could arise if the government has reimbursed travel expenses to an employee, who then fails to pay the travel card account balance. The government can control both of these risks by monitoring travel cards closely to identify delinquent (overdue) accounts. We expected that departments would closely monitor the use of cards on a regular and timely basis to reduce these potential risks associated with travel cards, while taking into consideration the ability of the departments to manage the risk of default by using salary-offset provisions.

1.51 We reviewed departments' processes for monitoring transactions incurred on travel cards, and for following up on overdue accounts and recovering any amounts owing where necessary. We found that all three departments managed collection risk by monitoring accounts as they approached the point of default by the cardholder, including reviewing travel card transactions, notifying employees and their managers of the outstanding amounts, and requiring cardholders to pay any outstanding balances. However, on the travel card accounts that were not overdue, departments did not monitor or verify transactions on a regular basis to ensure that they represented only business expenses.

1.52 The three departments also took corrective action at different times. We found that Fisheries and Oceans Canada monitored

delinquent accounts and took corrective action when accounts became 60 days overdue. The Department did the following:

- it contacted delinquent cardholders at the 60-day mark,
- it informed their respective managers of the status of accounts, and
- it requested the employees to pay the balance.

Health Canada and National Defence effectively monitored delinquent accounts only when they became 90 days overdue. We note that, according to the subcontract with the service provider, after 90 days, the government has already become liable for the amount owing on the account. For Health Canada, we found that the number of delinquent accounts was minimal. This was not the case for National Defence, and therefore more active monitoring is required at that department to reduce the risk of liability to the government. This may also help reduce the amount of collection work that might be needed later on.

1.53 Recommendation. National Defence, taking into account the risk of default, should more actively monitor its overdue travel card accounts.

National Defence's response. National Defence agrees. The Department is taking steps to increase the early review of delinquent designated travel cards centrally and through regional travel card coordinators. We will be proactive in determining the cause for delinquency and suspending cards at risk for default as they are identified.

Information for managing card programs

1.54 Departments periodically receive information on their card programs from service providers, central agencies, and internal sources such as internal audit or quality assurance reports. This information could range from the specifics of individual transactions to audits or reviews of the card programs. We expected that the departments would use this information, in a timely fashion, to assist in managing their acquisition and travel card programs and to ensure that they would achieve the intended benefits from these cards.

Management information for monitoring acquisition card usage is exception-based

1.55 As part of the contractual relationship between each department and its acquisition card service providers, the department has access to information or reports from the service providers, either electronically or in paper form, about its own spending on acquisition cards. We

found evidence that card coordinators reviewed these reports when they were provided in paper form. However, our interviews with staff indicated that the full range of information in the reports that are electronically available are not regularly accessed and reviewed.

1.56 In all three departments we examined, we were informed that reporting to senior management was primarily done only as an exception and occurred only when

- serious issues had arisen,
- senior management requested information, or
- internal audit or reviews were reported.

1.57 In both Fisheries and Oceans Canada and Health Canada, we found little evidence of regular reporting to senior management on the acquisition card programs. However, we noted that Health Canada and National Defence had recently undertaken to work with the service providers to provide key information on how the acquisition card program is operating. In addition, at National Defence, we noted that the Department had created a "watch list" to monitor specific transactions—the results of which led to a 2004 internal audit on acquisition cards.

1.58 Direct communication with the departmental card coordinator also appears to happen on the basis of exceptions. For example, when regional card coordinators identified issues, they did not always bring these issues to the attention of the departmental coordinator. Instead, they frequently reported the issues through their chain-of-command in the region. This practice can restrict the opportunity for program management to quickly become aware of significant issues and to ensure that relevant information is disseminated across the department.

Management information for monitoring travel card usage is appropriate

1.59 With respect to travel cards, American Express (AMEX) provides the departments with access to online activity reports. One report is issued per individual cardholder, which includes the number of days that a cardholder has had an account balance. Since the main risk for departments and the government with travel cards is the cardholder's late payment of the account balances, this information in the activity report is sufficient to manage that risk. In addition, Public Works and Government Services Canada (PWGSC) oversees travel card usage, delinquent accounts, aging reports, and various other types of information on a government-wide basis.

Internal audit and reviews are performed

1.60 Another source of information that management uses for monitoring purposes is internal audit reports. In all three departments we examined, internal audit had performed audits on the use of acquisition cards; these were useful to management in evaluating the performance of their acquisition card program. In 2004, internal audit at both Fisheries and Oceans Canada and Health Canada reported on acquisition cards. For Health Canada, a quality assurance review for the National Capital Region was reported in March 2006. Management action plans for these two departments have been developed to address concerns raised in these audits and reviews. At National Defence, the Chief of Review Services (CRS) performed some work on acquisition cards in 2004. However, at the time of our audit, the CRS internal audit report and action plan had still not been finalized.

1.61 With respect to travel cards, the Audit and Evaluation Directorate at Fisheries and Oceans Canada conducted an audit in 2004 on the use of the travel card program. Neither of the other two departments has performed audits of travel cards, although both have performed audits of travel expenditures.

Information on efficiencies achieved is not fully quantified

1.62 Although there are no recent studies substantiating efficiencies achieved using acquisition cards, in 1998 the government issued a report that identified the acquisition card as the least costly payment method for processing purchases. The 1998 report does not provide a comprehensive analysis of the efficiencies achieved; however, the departments indicated to us that they feel they are in fact achieving efficiencies through the use of the cards. Some examples are as follows:

- Each of the departments we examined had from 140,000 to 391,000 transactions in 2005. Although this amounted to a total of about 750,000 acquisition card transactions, each department would have made only one payment per month to its respective service providers for the consolidated credit card statement received. Without the acquisition and travel cards, a payment would have to be made for almost every transaction, and thus there would be an increase in transactional costs.
- A rebate incentive is provided to the government based on the dollar value of acquisition and travel card expenditures incurred. In 2005, the rebates on the acquisition and travel cards provided to the government were in excess of $5 million.

1.63 Another compelling reason for using cards is the transactional information the acquisition and travel cards enable the government to gather and analyze. For example, this information helps the government and departments identify preferred vendors and can be of great use in negotiating with suppliers to achieve volume discounts and other efficiencies.

1.64 There are also benefits to government employees in using travel cards while on travel status. These include both the convenience of obtaining cash advances to pay for travel costs and various insurance coverages.

1.65 Although increased use of the acquisition cards is being encouraged in the departments we examined, they need to take into consideration that vendors may begin to incorporate the incremental cost of accepting payment by way of an acquisition card (merchant fee) into the price charged to the government. If this is the case, especially for high-dollar-value transactions, payment by way of an acquisition card could become more costly than using the traditional vendor invoice process.

1.66 As a result, while there is anecdotal evidence of various efficiencies through the use of card programs, it is not possible to definitely conclude that the government has achieved its intended benefits from these programs. As the government expands the use of these programs for higher-dollar-value payments or for more payments in general, a more thorough analysis, comparing the benefits of these programs with the incremental costs of managing and monitoring them, is required. This analysis will make it possible to determine if the government is achieving the benefits in excess of the incremental costs of the programs.

1.67 Recommendation. The Treasury Board Secretariat and Public Works and Government Services Canada should monitor developments regarding the evolving practices of acquisition and travel card programs to identify the benefits versus the incremental costs.

The Treasury Board Secretariat's and Public Works and Government Services Canada's response. The Treasury Board Secretariat (TBS) and Public Works and Government Services Canada (PWGSC) agree with the recommendation. Consistent with our business practices, the TBS and PWGSC monitor current and evolving practices related to the acquisition and travel card programs through regular discussions with financial institutions, industry leaders, and other jurisdictions; attendance at conferences and workshops; and

review of current periodicals and articles. The TBS also plans to update the *Report on Review of the Cost of Various Methods of Payment*, which was originally issued in January 1998, to identify the costs related to the Government of Canada payment methodologies, including acquisition cards. The update of this report will provide departments with common information from which to develop their business cases and identify which payment options will result in the best benefits and savings to them. Forecasted completion of this update is 31 March 2009.

Sharing of best practices

Use of best practices by departments can be increased

1.68 As part of our audit, we researched best practices in relation to the control and monitoring of acquisition card transactions and outstanding travel card balances, and we identified four best practices. Two of these best practices are applicable to both travel and acquisition cards (data mining, restriction of card use), while two (quality assurance and central billing) are mainly pertinent to acquisition cards.

1.69 While the best practices for central billing and post-payment verification noted below are being used by many departments, data mining and restriction of card use are not frequently used. The use of these additional best practices can provide management with ongoing assurance that the programs are operating as expected.

1.70 **Data mining.** This is an analytic process that involves searching large volumes of data for trends and patterns and unusual transactions. It is accomplished by evaluating a population of card transactions or account balances and bringing anomalies between different pieces of information to management's attention. For example, parameters can be set to automatically identify trends or patterns, such as transactions done with questionable vendors, split transactions, or transactions of unusual amounts or relationships. Data mining is a tool that internal audit and management can easily implement to identify emerging problems of fraud, waste, or abuse. It can also provide statistics about purchases for management purposes, by product, and/or by vendor.

1.71 **Quality Assurance.** This is a practice that allows management to re-examine monthly transactions and to monitor compliance with policies and procedures. The Treasury Board Policy on Account Verification establishes the requirement for departments to carry out post-payment verification and quality assurance activities.

1.72 **Restricting the use of cards.** This offers numerous opportunities to control the use of cards. This tool allows management to limit,

based on a risk assessment, the vendors or the types of transactions that can be processed on a given card. This provides better control over the card and possibly fewer problematic transactions.

1.73 **Central billing practice.** This allows a department to issue one payment for an entire volume of purchases to the respective card service providers. Departments are now able to download all transactional data from the service providers directly into their departmental financial systems on a regular (often daily) basis. This allows departmental staff to review or validate the transactions on a more immediate basis. This process, when combined with a rigorous post-payment verification process, allows departments to make one payment to the service providers in a controlled and immediate fashion, thus maximizing rebates. The Treasury Board Secretariat highlighted the practice of central billing as one of the best practices followed by all three departments. However, we understand that centralized billing has not yet been implemented throughout the government. We also understand that the centralized billing practice could be used by departments for their designated-responsibility-centre travel card accounts. This could help to ensure timely payments, maximize rebates, and avoid interest charges.

1.74 Departmental coordinators also indicated to us that they feel it would be useful to share best practices with their colleagues from other departments. Methods of disseminating information among managers and users in departments could include, for example, symposia and a shared Internet site containing information, emails, or newsletters. The Interdepartmental Travel Users Working Group has developed a system for sharing best practices in the use of travel cards. It is important that a similar method be developed for sharing best management practices for acquisition cards to increase the use of the advantages offered by these programs, improve the application of control procedures throughout the government, and minimize each department's risk of incurring problematic transactions.

1.75 **Recommendation.** Departments should make better use of best practices, such as data mining, quality assurance, restricted use, and central billing in managing and monitoring their acquisition card transactions and outstanding travel card balances.

Fisheries and Oceans Canada's response. Fisheries and Oceans Canada agrees. The Department has already developed and implemented best practices related to central billing and quality assurance. The Department's outstanding travel card balances are closely monitored, and delinquent accounts are minimal.

The Department is open to participating in any forums, including interdepartmental sessions to improve on its practices. In 2007–08, the Department will gather additional information on best practices related to data mining and restricted use, and implement these practices, where practical.

Health Canada's response. Health Canada will continue to make use of best practices, where possible.

National Defence's response. National Defence agrees. The Department will continue to expand the use of best practices by building on the monthly reports already in place for the Senior Full-Time Financial Officer. This will include enhancing the level of real-time transaction information available to cardholders through increased access to the online portals for data mining. In conjunction with the implementation of revised standing offers for common goods and services, regional coordinators will also be provided with more information on their authority to restrict card use, where appropriate, to particular commodities and potentially to particular vendors.

1.76 Recommendation. The Treasury Board Secretariat and Public Works and Government Services Canada should establish a forum for sharing best practices for acquisition cards across government.

The Treasury Board Secretariat's and Public Works and Government Services Canada's response. The Treasury Board Secretariat (TBS) and Public Works and Government Services Canada (PWGSC) agree with the recommendation. The TBS and PWGSC recognize the importance of sharing best practices and will examine ways to share and communicate leading practices for acquisition cards across the government. For example, PWGSC held its banking colloquium on 5 March 2007, which included a workshop on best practices related to acquisition card programs. An update of PWGSC's *Receiver General Manual*, set for 31 March 2008, will contain a chapter on acquisition cards that will include leading practices.

Conclusion

1.77 The travel card program in the three departments that we examined has a control framework in place, which addresses the risks associated with that program. The acquisition card program in the three departments we examined has a control framework in place that relies significantly on post-payment verification and certification to

ensure the proper authorization of card transactions. The results of our audit of a sample of acquisition card transactions did not identify any losses or abuse. However, the control frameworks over acquisition cards were not applied in a rigorous manner. It is important that departments strengthen their control over the use of acquisition cards by dealing with the weaknesses—particularly the inconsistent application of verification and certification (as specified in section 34 of the *Financial Administration Act)*, which we noted in this audit. Fixing them will become more crucial, given that departments are interested in using the acquisition cards to a greater extent. As the use of cards increases, so do the risks that must be managed.

1.78 There is anecdotal evidence that efficiencies have been achieved. Nevertheless, in the absence of a comprehensive analysis of incremental costs and benefits, it is not possible to conclude that the government knows whether it has achieved the intended benefits from these programs.

About the Audit

Objective

The objective of this audit was to determine whether the government has an appropriate management control framework over the use of acquisition and designated travel cards and if the government knows whether it is achieving the intended benefits from these programs.

Scope and approach

In our audit, we compared departmental policies, procedures, and practices to determine if they were clear, consistent with the Treasury Board policies, and communicated properly to the parties who are involved in managing and using the cards, so that they are fully aware of their roles and responsibilities.

We assessed, through the use of review and enquiry, whether departments have received, processed, and disseminated information about the use of the cards in a timely manner.

We examined the database of transactions for each of the three departments and tested transactions to determine

- whether departmental systems of control were in place, which would ensure probity and prudence in the use of cards;
- how departments were applying key sections of the *Financial Administration Act;* and
- how departments were undertaking ongoing monitoring.

We identified the following high-value transactions:

- 23 transactions over $100,000 for Fisheries and Oceans Canada,
- 1 transaction over $8,000 for Health Canada, and
- 7 transactions over $100,000 for National Defence.

Of these high-value transactions, we examined a total of 21:

- 13 transactions from Fisheries and Oceans Canada,
- 1 transaction from Health Canada, and
- 7 transactions from National Defence.

From the remainder of the population of transactions, we randomly selected non-proportional stratified samples. For all three departments, we selected samples in such a way that large-dollar transactions would be proportionally over-represented. All proportions that we are reporting are therefore appropriately weighted to reflect an accurate estimate of findings for the entire population. We selected samples sizes in such a way as to give confidence intervals that would be less than 10 percent at a 90 percent level of confidence. This means that, for this chapter, the margin of sampling error is plus or minus 10 percent, valid 18 times out of 20.

Our audit covered transactions during the period from 1 January 2005 to 31 December 2005.

The departments included in the audit were

- Fisheries and Oceans Canada,
- Health Canada, and
- National Defence.

We also examined the role played by the Treasury Board Secretariat and Public Works and Government Services Canada in these programs.

Criteria

We expected that the Treasury Board Secretariat and Public Works and Government Services Canada would have

- established directives and guidance and best practices on credit cards and expenditure management;
- exercised oversight of the use and management of those cards; and
- ensured that the government was receiving the financial benefits and reporting requirements from the card companies, according to the applicable agreements.

We expected that departments would have

- established policies and procedures that were clear and consistent with the Treasury Board policies;
- developed communication and training practices to ensure that parties involved in managing and using the cards are fully aware of their roles and responsibilities;
- implemented systems of control to ensure probity and prudence in using their cards and that the system of control was functioning as intended;
- received, processed, and disseminated information related to the use of cards in a timely manner to allow for proper management of the cards;
- established regular monitoring practices for the cards, including reviews and audits that would be performed in a timely and complete manner; and
- taken advantage of all financial benefits associated with the cards.

Audit work completed

The audit work for this chapter was substantially completed by 29 September 2006.

Audit Team

Assistant Auditor General: Douglas G. Timmins
Principal: Clyde MacLellan
Lead Director: John Apt
Director: Gaetan Poitras

Daniel Bourgeois
Milan Duvnjak
Yin-Mei Kwok
Albert Melanson
Véronique Pilote
Mohamed Robleh
Tony Shaw
Kari Swarbrick
Reine Vilon

For information, please contact Communications at 613-995-3708 or 1-888-761-5953 (toll-free).

Appendix List of recommendations

The following is a list of recommendations found in Chapter 1. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Policies and procedures	
1.19 The Treasury Board Secretariat should update the policy with respect to acquisition cards including whether "corporate" acquisition cards should be permitted. **(1.15–1.18)**	**The Treasury Board Secretariat's response.** The Treasury Board Secretariat agrees with the recommendation. As part of the renewal of Treasury Board's financial management policies, the *Directive on Acquisition Cards* is being updated. The revised directive will not permit the issuance of acquisition cards in the name of an organization or asset, such as a vessel, as it would have an impact on the government's ability to monitor and control the usage of the card as well as on the merchant's ability to accept the card as payment. Forecasted completion for the updated directive is 31 March 2008.
1.24 The Treasury Board Secretariat should complete and issue its directive on travel cards. **(1.20–1.23)**	**The Treasury Board Secretariat's response.** The Treasury Board Secretariat agrees with the recommendation. As part of the renewal of Treasury Board's financial management policies, the *Directive on Travel Cards and Travellers Cheques* is being updated. Forecasted completion for the updated directive is 31 March 2008.
1.25 Public Works and Government Services Canada should provide departments and agencies with operational guidelines pertaining to the provisions of the contract with the travel card service provider, including guidelines pertaining to the responsibility of the government for unpaid travel card balances. **(1.20–1.23)**	**Public Works and Government Services Canada's response.** Public Works and Government Services Canada agrees with this recommendation and will provide departments and agencies with operational guidelines pertaining to the provisions of the contract with the travel card service provider.

Recommendation	Response
1.31 Fisheries and Oceans Canada, Health Canada, and National Defence should formalize training for regional and departmental coordinators and quality assurance personnel to ensure that information about all issues related to acquisition and travel card management within a department is understood by those personnel, and that the information is disseminated to program managers. **(1.26–1.30)**	**Fisheries and Oceans Canada's response.** Fisheries and Oceans Canada agrees. Over the next 12 months, the Department will implement a training program for card coordinators and quality assurance personnel, and will improve the departmental coordination of card management and of the quality assurance function. In addition, the Department will take the necessary steps to inform card coordinators of the availability on the website of training material and tools accessible to them. **Health Canada's response.** Health Canada agrees that training should be available for these groups and will explore alternatives for the delivery of training in respect of departmental coordinators, including the possible provision of this training through central agencies or the Canada School of Public Service. **National Defence's response.** National Defence agrees. The Department is developing a range of training packages for all personnel involved in the use of acquisition and travel cards. It is expected that the formal training program will be implemented through regional coordinators over the course of 2007.
Verification and monitoring of card transactions	
1.48 Fisheries and Oceans Canada, Health Canada, and National Defence should ensure that, on a timely basis, all acquisition card transactions are properly verified and certified, according to section 34 of the *Financial Administration Act* and as stated in the Treasury Board Policy on Account Verification. **(1.32–1.47)**	**Fisheries and Oceans Canada's response.** Fisheries and Oceans Canada agrees. Since the period covered by the scope of the audit, the Department has required that the cardholder's supervisor or manager, who has the appropriate delegated signing authority, sign section 34 of the Acquisition Card Register. This practice will be monitored regionally. **Health Canada's response.** All Health Canada acquisition card transactions are properly verified and certified in accordance with section 34; however, Health Canada will strengthen its acquisition card policy to not permit cardholders to verify and certify, under section 34, transactions that the acquisition cardholders have processed. **National Defence's response.** National Defence agrees. The Department has increased the level of post-payment compliance reviews to reinforce the importance of section 34 FAA verification and certification. This point is being emphasized as part of the formal training packages currently under development.

Recommendation	Response
1.53 National Defence, taking into account the risk of default, should more actively monitor its overdue travel card accounts. **(1.49–1.52)**	**National Defence's response.** National Defence agrees. The Department is taking steps to increase the early review of delinquent designated travel cards centrally and through regional travel card coordinators. We will be proactive in determining the cause for delinquency and suspending cards at risk for default as they are identified.
Information for managing card programs	
1.67 The Treasury Board Secretariat and Public Works and Government Services Canada should monitor developments regarding the evolving practices of acquisition and travel card programs to identify the benefits versus the incremental costs. **(1.54–1.66)**	**The Treasury Board Secretariat's and Public Works and Government Services Canada's response.** The Treasury Board Secretariat (TBS) and Public Works and Government Services Canada (PWGSC) agree with the recommendation. Consistent with our business practices, the TBS and PWGSC monitor current and evolving practices related to the acquisition and travel card programs through regular discussions with financial institutions, industry leaders, and other jurisdictions; attendance at conferences and workshops; and review of current periodicals and articles. The TBS also plans to update the *Report on Review of the Cost of Various Methods of Payment*, which was originally issued in January 1998, to identify the costs related to the Government of Canada payment methodologies, including acquisition cards. The update of this report will provide departments with common information from which to develop their business cases and identify which payment options will result in the best benefits and savings to them. Forecasted completion of this update is 31 March 2009.
Sharing of best practices	
1.75 Departments should make better use of best practices, such as data mining, quality assurance, restricted use, and central billing in managing and monitoring their acquisition card transactions and outstanding travel card balances. **(1.68–1.74)**	**Fisheries and Oceans Canada's response.** Fisheries and Oceans Canada agrees. The Department has already developed and implemented best practices related to central billing and quality assurance. The Department's outstanding travel card balances are closely monitored, and delinquent accounts are minimal. The Department is open to participating in any forums, including interdepartmental sessions to improve on its practices. In 2007–08, the Department will gather additional information on best practices related to data mining and restricted use, and implement these practices, where practical. **Health Canada's response.** Health Canada will continue to make use of best practices, where possible.

Recommendation	Response
	National Defence's response. National Defence agrees. The Department will continue to expand the use of best practices by building on the monthly reports already in place for the Senior Full-Time Financial Officer. This will include enhancing the level of real-time transaction information available to cardholders through increased access to the online portals for data mining. In conjunction with the implementation of revised standing offers for common goods and services, regional coordinators will also be provided with more information on their authority to restrict card use, where appropriate, to particular commodities and potentially to particular vendors.
1.76 The Treasury Board Secretariat and Public Works and Government Services Canada should establish a forum for sharing best practices for acquisition cards across government. **(1.68–1.74)**	**The Treasury Board Secretariat's and Public Works and Government Services Canada's response.** The Treasury Board Secretariat (TBS) and Public Works and Government Services Canada (PWGSC) agree with the recommendation. The TBS and PWGSC recognize the importance of sharing best practices and will examine ways to share and communicate leading practices for acquisition cards across the government. For example, PWGSC held its banking colloquium on 5 March 2007, which included a workshop on best practices related to acquisition card programs. An update of PWGSC's *Receiver General Manual*, set for 31 March 2008, will contain a chapter on acquisition cards that will include leading practices.

Report of the Auditor General of Canada to the House of Commons—May 2007

Main Table of Contents

	A Message from the Auditor General of Canada **Main Points—Chapters 1 to 7**
Chapter 1	Use of Acquisition and Travel Cards
Chapter 2	Federal Loans and Grants for Post-Secondary Education—Human Resources and Social Development Canada and Canada Millennium Scholarship Foundation
Chapter 3	Human Resources Management—Foreign Affairs and International Trade Canada
Chapter 4	Canadian Agricultural Income Stabilization—Agriculture and Agri-Food Canada
Chapter 5	Managing the Delivery of Legal Services to Government—Department of Justice Canada
Chapter 6	Modernizing the NORAD System in Canada—National Defence
Chapter 7	Management of Forensic Laboratory Services—Royal Canadian Mounted Police

Gove
Publ

CA1
AG
- A55

2007



Report of the

Auditor General of Canada

to the House of Commons

MAY

Chapter 2

Federal Loans and Grants for Post-Secondary Education—Human Resources and Social Development Canada and Canada Millennium Scholarship Foundation

Office of the Auditor General of Canada



2007



Report of the

Auditor General of Canada

to the House of Commons

MAY

Chapter 2

Federal Loans and Grants for Post-Secondary Education—Human Resources and Social Development Canada and Canada Millennium Scholarship Foundation

Office of the Auditor General of Canada

The May 2007 Report of the Auditor General of Canada comprises A Message from the Auditor General of Canada, Main Points—Chapters 1 to 7, and seven chapters. The main table of contents for the Report is found at the end of this publication.



The Report is available on our website at www.oag-bvg.gc.ca.

For copies of the Report or other Office of the Auditor General publications, contact

Office of the Auditor General of Canada
240 Sparks Street, Stop 10-1
Ottawa, Ontario
K1A 0G6

Telephone: 613-952-0213, ext. 5000, or 1-888-761-5953
Fax: 613-943-5485
Hearing impaired only TTY: 613-954-8042
Email: distribution@oag-bvg.gc.ca

Ce document est également publié en français.

© Minister of Public Works and Government Services Canada 2007
Cat. No. FA1-2007/2-2E
ISBN 978-0-662-45619-3

Chapter

2

Federal Loans and Grants for Post-Secondary Education

Human Resources and Social Development Canada and Canada Millennium Scholarship Foundation

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Table of Contents

Main Points 1

Introduction 3

The Canada Student Loans Program 3
The Millennium Bursary and Access Bursary programs 7
Focus of the audit 8

Observations and Recommendations 8

Control framework—Canada Student Loans Program 8

Program risks are assessed 9
Roles, responsibilities, and federal requirements are clearly defined and communicated 9
HRSDC obtains reasonable assurance that third parties are fulfilling their responsibilities 10
Information on controls for eligibility and needs assessments is not well documented 11
A formal approach to monitoring collection procedures is needed 12
HRSDC cannot assess whether its criteria for Canada Study Grants are being met 15

Control framework—The Canada Millennium Scholarship Foundation 16

The Foundation is assessing the risks of its bursary programs 17
Responsibilities and requirements are clearly defined 17
Controls for eligibility assessments and disbursements are appropriate 17

Performance management—Canada Student Loans Program 18

HRSDC is taking steps to increase awareness of the Program 18
Client satisfaction with the Program is near target 19
The Program's Portfolio Management Strategy is well managed and achieving results 20
HRSDC needs to measure the Program's performance on access 21
Parliament does not have a full picture of the Program's performance 22

Performance management—Canada Millennium Scholarship Foundation 24

The Foundation collects and uses performance information 24
The Foundation provides the required information to Parliament 26

Consultation between HRSDC and the Foundation 26

HRSDC and the Foundation need to improve arrangements for consulting together 26

Conclusion 28

About the Audit 30

Appendix

List of recommendations 32



Federal Loans and Grants for Post-Secondary Education

Human Resources and Social Development Canada and Canada Millennium Scholarship Foundation

Main Points

What we examined

The Canada Student Loans Program of Human Resources and Social Development Canada (HRSDC) provides loans, Canada Access Grants, and Canada Study Grants to qualified students who need financial assistance for post-secondary education. The grants and the Millennium Bursary and Access Bursary programs of the Canada Millennium Scholarship Foundation are designed to help limit the amount of debt that recipients accumulate.

We examined whether the Department and the Foundation have appropriate controls to ensure that they manage their responsibilities with due care and in compliance with legislation and other requirements. We looked at the controls that the Canada Revenue Agency has in place to ensure that the collection of defaulted Canada Student Loans complies with requirements. We also examined whether the Department and the Foundation ensure that information on the programs is easy to find and understand and that services are accessible and convenient. We examined how they measure their programs' performance and report results. We did not examine the activities of the other partners in delivering the loan, grant, and bursary programs—the provinces and territories, and two private sector service providers contracted by HRSDC to handle most day-to-day operations of the Canada Student Loans Program.

Why it's important

The federal government has said that Canada's international competitiveness depends on having an educated and skilled labour force. To improve access to higher education is the main objective of both the Canada Student Loans Program and the Foundation. To this end, HRSDC loaned $1.9 billion to some 350,000 post-secondary students in 2005–06 and awarded 78,500 grants amounting to about $129 million. In 2006 the Foundation awarded about $298 million in Millennium Bursaries to some 100,000 students and over $40 million in Access Bursaries to more than 20,000 students.

What we found

- With a few exceptions, the Canada Student Loans Program is well managed. The Department has the necessary controls in place for disbursing loans and grants; it also obtains reasonable assurance

that its partners in delivering the Program are fulfilling their responsibilities. However, it does not have a clear strategy for measuring whether the Program has improved access to post-secondary education. Further, the Department has postponed completing its evaluation of the Program from 2006 to 2011.

- The Foundation's bursary programs are well managed. The Foundation has the necessary controls in place to ensure that eligibility for bursaries is assessed correctly and that payments are issued in the right amounts to the right people. It also obtains reasonable assurance that the provinces and territories are fulfilling their responsibilities in delivering the programs. The Foundation collects adequate information to report its achievements against objectives, and it meets its obligation to report the results of its activities to Parliament.
- The Department and the Foundation are taking steps to make prospective post-secondary students and their families more aware of the financial assistance available to them. The Department has also improved its communication to students about measures available to help manage their debts.
- The Canada Revenue Agency monitors the performance of private collection agencies, and Human Resources and Social Development Canada monitors the consistency of the information the agencies provide. However, neither organization adequately monitors the agencies' compliance with key collection requirements of the Canada Student Loans Program. The Canada Revenue Agency has contracted with private collection agencies to handle about $450 million of the $800 million in defaulted loans owed to HRSDC (at 31 March 2006); it handles the remaining $350 million itself.
- HRSDC and the Foundation have developed a good research relationship with one another. However, they do not have adequate arrangements for consulting each other to achieve their shared objective of improved access to post-secondary education.

Human Resources and Social Development Canada, the Canada Revenue Agency, and the Canada Millennium Scholarship Foundation have responded. The Department, Agency, and Foundation have agreed with each of our recommendations and have committed to taking action. Their responses are included throughout the chapter.

Introduction

2.1 In its budgets of 2004, 2005, and 2006 the federal government observed that a more educated and skilled labour force is essential to Canada's current and future international competitiveness. The government sees investments in education and training as critical to productivity and economic growth. Although education falls within the legislative jurisdiction of the provinces and territories, the federal government manages or contributes to several programs that provide financial support for post-secondary education.

2.2 Our audit looked at the Canada Student Loans Program (CSLP) of Human Resources and Social Development Canada (HRSDC) and at the Millennium Bursary and Access Bursary programs of the Canada Millennium Scholarship Foundation. These programs provide direct financial support to students. The CSLP and the Foundation's programs share the same objective: to improve access to post-secondary education for students in financial need. Other federal programs supporting post-secondary education that are not part of this audit include education savings programs, research funding, tax incentive measures, programs to support Aboriginal post-secondary education, and the **Canada Social Transfer**.

Canada Social Transfer—A federal block transfer of funds to provinces and territories in support of post-secondary education, social assistance, and social services.

The Canada Student Loans Program

2.3 The Government of Canada established the Canada Student Loans Program in 1964 as a statutory spending program under the *Canada Student Loans Act*. In 1994, the *Canada Student Financial Assistance Act* came into force: it governs the provision of loans and other forms of financial assistance to students. The Program provides loans and/or grants to qualified students attending post-secondary institutions. The loans and grants are based on financial need, regardless of province or territory of residence. Since 2000, the federal government has delivered loans directly; previously it did so through financial institutions. In 2005–06, HRSDC loaned $1.9 billion to some 350,000 post-secondary students. For direct loans, there is currently an outstanding debt of about $8.2 billion borrowed by 990,000 students.

2.4 Quebec, the Northwest Territories, and Nunavut have chosen not to participate in the Program. Instead, under the *Canada Student Financial Assistance Act*, they receive transfer payments from the federal government (a total of about $160 million for 2005–06).

2.5 Human Resources and Social Development Canada works directly with several partners (Exhibit 2.1) to deliver the Canada Student Loans Program: the participating provinces and territory, the Canada Revenue Agency, Public Works and Government Services Canada (PWGSC), and two private-sector service providers it has contracted to administer most of the day-to-day operations for the Program. The Learning Branch of HRSDC is responsible for developing and implementing the policies, regulations, procedures, and criteria for determining student eligibility for loans under the Program.

2.6 Under the *Canada Student Financial Assistance Act*, the Minister of Human Resources and Social Development has designated the Ministry of Education (or higher education) in each participating province or territory as the appropriate authority to administer parts of the Act and the Canada Student Financial Assistance Regulations. The Minister has also entered into an administrative fees arrangement with each participating province and territory for the eligibility assessment services it provides. In 2005–06, the total amount in administrative fees paid by the federal government was about $14 million.

2.7 Students apply for both a federal loan and a provincial or territorial loan at the same time. Eligibility for a federal loan is assessed in conjunction with the provincial and territorial loan application. The federal part of a student loan usually makes up about 60 percent of the loan total. The provincial or territorial authorities serve as a student's single point of contact in applying for a loan and having it assessed.

2.8 HRSDC contracts two private-sector service providers to perform most of the day-to-day operations for the Canada Student Loans Program. One service provider serves students attending public educational institutions and the other serves students in private institutions. They process the loan documents received from the participating provinces and territory (Yukon) and send transactions for final authorization to HRSDC. The Department then forwards approved transactions to PWGSC to issue and disburse the federal loan payments. The service providers are responsible for managing accounts from disbursement of the loan to repayment and for maintaining account information. They also administer the National Student Loans Service Centre, which deals with most student telephone enquiries or complaints. In 2005–06, HRSDC paid $50 million in administration fees to the service providers. The Department's current contracts with the service providers expire at the end of March 2008. During our audit, the Department was reviewing responses to its request for proposals to find a single service provider. A contract has since been awarded, and the transition will occur in mid-March 2008.

Exhibit 2.1 The main responsibilities of Human Resources and Social Development Canada (HRSDC) and its partners in delivering the Canada Student Loans Program (CSLP)

Loan process

Application eligibility and needs assessment → Loan disbursement → In-study account management → Loan consolidation and debt repayment → Debt collection

Main responsibilities of HRSDC and its partners

The role of HRSDC throughout the loan process

- Sets guidelines and procedures for eligibility and needs assessment, loan disbursement, in-study account management, loan consolidation, and debt management measures
- Conducts outreach activities
- Handles escalated borrower inquiries during study and repayment
- Assesses applications for loan forgiveness in special cases

HRSDC

- Updates and advises provinces and the territory on federal eligibility criteria, guidelines, and frameworks

Provinces and the Yukon

- Receive student loan applications
- Determine eligibility
- Assess students' financial needs
- Inform the students in writing of assessment of eligibility and loan amount
- Issue loan certificates to students
- Designate educational institutions that students may attend with CSLP assistance

Educational institutions

- Confirm continued enrolment

HRSDC

- Authorizes loan payments to students

Service providers

- Receive documents from students
- Check students' identity, and accuracy and completeness of documents
- Create and transmit payment files to HRSDC for authorization

Public Works and Government Services Canada

- Disburses loans

HRSDC

- Provides full-time students with in-study interest subsidy

Service providers

- Maintain a record of in-study status so that loans remain interest free for full-time students
- Manage the loan accounts
- Handle routine borrower inquiries
- Provide information to borrowers on consolidation and repayment and on debt management measures

Educational institutions

- Confirm continued enrolment
- Inform service providers of change of status, for example, from full- to part-time or termination of studies

HRSDC

- Informs the service providers of the loan interest rates

Service providers

- Negotiate repayment terms
- Handle loan repayments
- Provide information on debt management measures
- Negotiate revision of terms, interest relief, and debt reduction in repayment

HRSDC

- Manages debt write-offs
- Maintains the database of loans in default
- Records amounts received and credits borrowers' accounts

Canada Revenue Agency—Non-Tax Collection Services

- Locates and contacts the borrowers in default
- Arranges repayment terms and collection closures (paid in full; referred to legal services or to private collection agencies)

2.9 Students are to begin repaying their loans no later than six months after their studies end. For full-time students, no interest accrues during their studies; for part-time students, interest accrues and is payable during their studies. For some provinces and the Yukon, the service providers process repayments of only the federal student loans. A student must repay the province or territory separately for its portion of the loan. However, HRSDC has signed integration agreements with four provinces, accounting for 60 percent of CSLP borrowers. Under these agreements, the service providers are a single point of contact for repaying both the federal and provincial portions of a loan. These integration agreements also create common disbursement processes and debt management programs.

2.10 Under the Canada Student Loans Program, HRSDC also awards Canada Access Grants and Canada Study Grants. A student may be eligible to receive a combination of Access and Study Grants. A student receiving an Access or Study Grant receives less money in the form of a repayable loan, thus reducing debt. In most cases, provinces and the territory assess eligibility for Access and Study Grants when a student applies for a Canada Student Loan. In 2005–06, HRSDC awarded $55 million in Access Grants to over 29,000 students and $74 million in Study Grants to 49,500 students.

2.11 The Canada Student Loans Program also provides assistance to students facing repayment difficulties: Students may have the terms of their loan revised; interest relief is available for up to 54 months, during which time no interest accrues to the student and no payments are required; and debt reduction in repayment is available to certain borrowers who experience exceptional difficulties in meeting their loan obligations. If a student's loan is in arrears for 270 days, the Canada Revenue Agency's Non-Tax Collection Services will start collection.

2.12 In its 2005–06 Departmental Performance Report, HRSDC states that its costs and fees for the Canada Student Loans Program (direct loans) were $993 million for the year. This includes a **bad debt expense** of just over $310 million. The interest revenue was $316 million.

Bad debt expense—An allowance for the cost to the Canada Student Loans Program of future defaulted loans and debt relief measures.

The Millennium Bursary and Access Bursary programs

2.13 The *Budget Implementation Act, 1998*, established the Canada Millennium Scholarship Foundation to provide assistance to students in financial need. The Minister of Human Resources and Social Development tables the Foundation's annual report (including audited financial statements) in Parliament. However, unlike the Department, the Foundation is not answerable to Parliament through the Minister.

Conditional grant—A transfer payment that is approved by Parliament and made available to an organization as a lump sum, paid up front, to cover expenses over a number of years. The Treasury Board requires the sponsoring department to report on the organization's results within its annual departmental performance report and situate these results within the overall plans and priorities of the department.

2.14 The federal government provided the Canada Millennium Scholarship Foundation with a **conditional grant** of $2.5 billion in 1998 under a funding agreement signed by the Minister of Human Resources Development (the title at that time) and the Minister of Finance. This agreement is a legally binding contract that places obligations on both departments and the Foundation. The Foundation's enabling legislation also structures how the Foundation is to administer its funds and award its bursaries.

2.15 Under the Millennium Bursary and Access Bursary programs, the Foundation provides bursaries to undergraduate students based on financial need. In most provinces, a bursary is applied to the loan to reduce the debt; in some provinces and the territories, it is added, or part of it is added, to the amount of the student loan.

2.16 Students may be considered for a Millennium Bursary when they apply for student financial assistance from their province or territory of residence. In some jurisdictions, they must indicate on the student assistance application that they wish to be considered for the bursary; in others, they are considered automatically. Every year, beginning in 1999–2000 and ending in 2008–09, the Foundation expects to provide about 90,000 eligible students with about $3,000 each. At 31 December 2006, the cumulative value of Millennium Bursaries was almost $2 billion, including just over $298 million paid in 2006 to about 100,000 students across Canada.

2.17 In 2005, the Foundation introduced Millennium Access Bursaries to reach specifically targeted populations. Beginning in 2005–06 and ending in 2008–09, the Foundation expects to provide about 25,000 eligible students with up to a total of $50 million a year in Access Bursaries. In 2006, it awarded over $40 million in Access Bursaries to more than 20,000 students.

2.18 Provinces and territories carry out the eligibility assessment for the Foundation's bursaries, as they do for the federal portion of student loans. The Foundation has a separate agreement with each of the 10 provinces and the 3 territories to process its bursaries.

It pays administration fees for the eligibility assessment services they provide; in 2006, the fees were about $2.8 million.

Focus of the audit

2.19 Our objective was to determine whether federal loan and debt reduction programs for post-secondary students are managed to improve access to post-secondary education while ensuring that the necessary controls are in place.

2.20 The audit focused on how HRSDC and the Canada Millennium Scholarship Foundation ensure that

- they have adequate controls to manage the loan, bursary, and grant programs with due care and in compliance with legislation and other requirements;
- their efforts to increase awareness and use of the programs are effective;
- their services to clients are accessible and convenient;
- they have satisfactory procedures to collect performance information, and decision makers use this information to achieve program objectives; and
- they provide meaningful reports to Parliament as required.

2.21 We also examined how the Canada Revenue Agency ensures that controls are in place for collecting defaulted loans according to agreements and other requirements.

2.22 More details on the audit objective, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Observations and Recommendations

Control framework—Canada Student Loans Program

2.23 Each organization involved in the Canada Student Loans Program is responsible for implementing its own controls to ensure compliance with federal requirements in processing loans and grants. Human Resources and Social Development Canada (HRSDC) has an oversight role to ensure that all third parties, that is, organizations outside the federal government, are exercising due care in fulfilling their responsibilities. For collection of defaulted loans, the Canada Revenue Agency also has an oversight role.

2.24 Therefore, for each phase of the loan and grant life cycle, we expected HRSDC and the Canada Revenue Agency to have implemented control structures that include the following elements:

- risk assessments, so that controls are designed and adapted based on key risks;
- clear roles and responsibilities;
- clear communication of federal requirements, including policies and procedures; and
- a means to provide HRSDC and the Canada Revenue Agency with reasonable assurance that third parties are fulfilling their responsibilities.

2.25 The delivery structure and controls for the Canada Study Grants are different from those for the Canada Student Loans and Access Grants. Thus, we report separately on the Study Grants later in the chapter.

Program risks are assessed

2.26 Management of the Canada Student Loans Program conducts annual risk assessments of the Program. In 2006, the assessments were extended to include the Canada Access Grants. A joint federal/provincial/territorial risk assessment of measures used for determining loan eligibility was conducted in 2004. As a result of these risk assessments, the Department has taken initiatives aimed at strengthening controls for processing the loans and grants, such as developing additional policies and procedures and expanding its audits of service providers.

Roles, responsibilities, and federal requirements are clearly defined and communicated

2.27 We found that HRSDC has clearly defined the roles and responsibilities of the organizations involved in delivering the Canada Student Loans and Access Grants. It has also developed appropriate policies and procedures to support the administration of the loans and grants, from assessing eligibility to reimbursing loans. These are updated periodically as risks emerge and issues are identified.

Designation—The process by which post-secondary education institutions obtain the recognition from the provincial and territorial governments that allows their students to be eligible for student loans.

2.28 HRSDC has delegated responsibility to the Ministry of Education (or higher education) in the nine participating provinces and the Yukon for

- **designating** educational institutions,
- determining students' eligibility and financial needs, and
- issuing loan and grant certificates.

2.29 The ministries' roles and responsibilities in these areas are defined in the *Canada Student Financial Assistance Act* and Regulations. HRSDC has provided the participating provinces and territory with policies and procedures that further define the federal requirements set out in the Act and Regulations for assessing students' eligibility and financial needs.

2.30 The Department's contracts with the service providers clearly establish their roles and responsibilities. They set out in detail the procedures for managing the loans and grants, such as initiating the loan and grant disbursements, processing loan reimbursements, and maintaining the master student files. The Department has also developed additional guidelines on federal requirements in specific areas, such as use of debt reduction measures.

HRSDC obtains reasonable assurance that third parties are fulfilling their responsibilities

2.31 **Audits and reviews.** HRSDC conducts periodic audits and reviews of how the service providers are managing the loan and grant process. We found that it has conducted these audits and reviews appropriately and used their results to improve the controls for processing the loans and grants.

2.32 Over the years, HRSDC has adapted the audit and review process to meet new requirements and address emerging risks. For example, it expanded the scope of the audits and reviews to include the Canada Access Grants, and it added certain audit criteria and removed others to better focus on risks.

2.33 HRSDC also examines reports by provincial auditors general on student financial assistance programs, as independent sources of information on whether the provinces use adequate processes to assess students' eligibility and needs. We found that management of the Program reviews the observations arising from these reports to determine whether the Department needs to take action.

2.34 The provinces, territory, and service providers handle most of the delivery of the loans and grants. HRSDC is responsible for disbursing the funds and maintaining the database on loans in default. To ensure that the loan and grant information it processes is accurate, HRSDC periodically **reconciles** its own financial information with the information of the service providers and PWGSC. We found that it does this properly.

Reconciliation—A comparison between two sets of data to determine if they agree and to account for any differences.

2.35 Joint committees and working groups. The *Canada Student Financial Assistance Act* gives the Minister of Human Resources and Social Development the authority to enter into agreements with provincial and territorial governments and to give them binding directives. However, there are no formal agreements for administering the eligibility and needs assessments for Canada Student Loans and Access Grants (apart from certain clauses in one of the integration agreements). Instead, HRSDC uses joint committees and working groups with the provinces and territory to share best practices and improve the consistency and adequacy of processes and controls for assessments of students' eligibility and financial needs. This collaboration has led to such key initiatives as

- establishing minimum criteria to designate educational institutions as eligible for government financial assistance programs for post-secondary students;
- completing joint audits with several provinces to assess, among other things, how prepared an educational institution is to comply with the designation requirements, and planning for systematic audits of educational institutions starting in 2008; and
- developing a draft framework to standardize measures for verifying loan eligibility—for example, validating students' identity and income with third parties.

Information on controls for eligibility and needs assessments is not well documented

2.36 Through the federal/provincial/territorial committees and working groups, as well as its review of the provincial auditor generals' reports, HRSDC is informed of risks, challenges, and controls related to eligibility and needs assessments carried out by the provinces and territory. Program officials told us that they consider these risks, challenges, and controls in determining what action, if any, is needed. However, we found little documentation on whether they concluded that the controls were adequate or on what, if any, related action was taken. For example, the Department developed an inventory of

integrity—Assurance that the right Canada Student Loans Program client receives the right benefit or service at the right time and for the intended purpose, while client information is safeguarded and public confidence is maintained.

provincial **integrity** measures in 2004, but there was no record of whether it considered the measures to be satisfactory. Nor has the inventory been updated even though some of the measures have since been changed.

2.37 As a good management practice and to minimize the risk that the Department may lose important knowledge when employees leave, a formal process is needed to manage this information.

2.38 **Recommendation.** To ensure that the knowledge acquired about the provinces' and the territory's processes for eligibility and needs assessments is available for managing the Canada Student Loans Program, Human Resources and Social Development Canada should document its conclusions on the adequacy of controls and any related action taken.

Human Resources and Social Development Canada's response. The Department agrees that the Canada Student Loans Program would benefit from better documentation of provincial and territorial processes for eligibility and needs assessment. Program officials already meet regularly with officials from participating jurisdictions to share information on their respective controls of these processes. The Department will institute procedures to ensure that its conclusions on the adequacy of the Program's controls for eligibility and needs assessments are documented.

A formal approach to monitoring collection procedures is needed

2.39 In August 2005, the responsibility for collecting debts owed to various HRSDC programs, including student loans in default, was transferred from the Department to the Canada Revenue Agency (CRA), together with the personnel assigned to these activities. The Department and the Agency signed agreements specifying the roles and responsibilities of each party. HRSDC continues to maintain the database on student loans in default, and it remains responsible for recording the amounts recovered and applying them to the correct borrower account. With the transfer, the CRA has continued to move forward with an extensive modernization strategy, begun by HRSDC, to improve the recovery of debts owed.

2.40 The CRA's Non-Tax Collection Services, which operates separately from its Tax Collection Services, carries out the collection activities in two regional offices (Belleville, Ontario and Vancouver, British Columbia). The CRA also has contracts with 12 private collection agencies. Of the $800 million in direct student loans in

default at 31 March 2006, about $450 million was handled by the private collection agencies. The CRA's regional offices handled the remaining $350 million.

2.41 Monitoring compliance of CRA staff with collection procedures. As part of our audit, we visited the Belleville regional office, which handles about 60 percent of all the student loan accounts newly in default. The regional offices initiate collection and pass on the more difficult cases to the private collection agencies.

2.42 The collection activities of the regional offices have undergone significant changes over the past few years as part of the modernization strategy. The CRA has trained its regional staff in student loan collection procedures, but we found that there are various procedure manuals in circulation that have not been consolidated. The Agency has also started a project to integrate its Tax and Non-Tax collection services: As part of this project, it plans to consolidate policies and procedures for the Canada Student Loans Program.

2.43 We found that the Belleville regional office does a satisfactory job of monitoring the performance of collections officers to ensure that they comply with procedures. However, while the CRA headquarters discusses operational issues with its two regional offices, we noted that it does not verify whether monitoring is done properly and consistently in both regions. The monitoring relationship between the CRA headquarters and the regional offices is not clearly defined. The Agency informed us that it is currently designing a formal monitoring program for Canada Student Loans collection activities.

2.44 Recommendation. The Canada Revenue Agency should develop and implement a formal quality assurance program to monitor whether collection procedures for the Canada Student Loans Program are followed properly in its regional offices.

The Canada Revenue Agency's response. The Agency agrees with this recommendation. As noted by the Office of the Auditor General, the Agency has continued to move forward with an extensive modernization strategy to improve the recovery of debts owed since it assumed responsibility for the collection of defaulted Canada Student Loans in August 2005. The strategy already provides for resources to be dedicated to the monitoring of collection procedures and performance of the Agency's staff dedicated to this activity. The Agency has completed the necessary procedural and operational requirements to fully implement a formal monitoring framework, commencing the first quarter of the 2007–08 fiscal year.

2.45 Monitoring contractors' compliance with collection requirements. The CRA's contracts with the private collection agencies set out their roles and responsibilities. The CRA has also developed directives to further define the procedures that collection agencies must follow.

2.46 The CRA and HRSDC have a responsibility to monitor the contractors' compliance with collection requirements in the directives and certain clauses of the contracts. We found that the CRA assesses the contractors' performance periodically by looking at amounts collected and measures of client service. We also found that HRSDC performs periodic reconciliations to ensure that the remittances and the account information it receives from the private collection agencies match.

2.47 However, neither the CRA nor HRSDC adequately monitor whether the collection activities, including the handling of remittances, comply with collection requirements. For example, the contracts require annual audits (by audit firms hired by the collection agencies) of the adequacy of the agencies' financial and managerial controls for the funds collected. Although these audits would examine issues important to the responsibilities of both HRSDC and the CRA, we found that neither organization has been reviewing them.

2.48 Recommendation. The Canada Revenue Agency and Human Resources and Social Development Canada should strengthen the monitoring of private collection agencies to ensure their compliance with contractual and administrative requirements of the Canada Student Loans Program.

Human Resources and Social Development Canada's response. The Department agrees with the recommendation.

The Canada Revenue Agency (CRA) assumed responsibility for the collection of defaulted Canada Student Loans starting in August 2005, and thus it is responsible for private collection agencies' compliance with the collection directives.

Human Resources and Social Development Canada (HRSDC)/Service Canada maintained responsibility for establishing overpayments, reporting on the outstanding debt for HRSDC clients, recording the payments received from the private collection agencies, and ensuring client accounts are reconciled. HRSDC/Service Canada will leverage the CRA's efforts toward strengthening the monitoring of the private collection agencies and ensure compliance with administrative requirements.

With respect to the Office of the Auditor General's observation of the private collection agencies' handling and remittance of accounts, HRSDC/Service Canada implemented the Single System of Record on 19 January 2007. Payments are now received directly by HRSDC/Service Canada, thus reducing the risk of non-reconciliation of account information. HRSDC/Service Canada will closely monitor any exceptional payments made to private collection agencies to ensure accuracy between remittances and account information.

The Canada Revenue Agency's response. The Agency agrees with this recommendation. As noted by the Office of the Auditor General, the Agency has continued to move forward with an extensive modernization strategy to improve the recovery of debts owed since it assumed responsibility for the collection of defaulted Canada Student Loans in August 2005. The strategy provides for the monitoring of private collection agencies in respect of their performance and compliance with contractual and administrative requirements. The Agency has completed the necessary procedural and operational requirements to fully implement a formalized monitoring framework, commencing the first quarter of the 2007–08 fiscal year.

HRSDC cannot assess whether its criteria for Canada Study Grants are being met

2.49 The regulatory environment. HRSDC has delegated the delivery of the Canada Study Grants to the nine provinces and one territory participating in the Canada Student Loans Program. They are responsible for assessing students' eligibility, determining the grant amount, and disbursing the grants. HRSDC makes annual payments to each of the participating governments based on the grant amounts each has issued over the three previous years.

2.50 The Canada Study Grants are governed by the *Canada Student Financial Assistance Act* and Regulations. The Regulations specify the eligibility criteria for each type of Study Grant and the maximum amount that can be paid to a qualifying student. The Regulations also require general reporting for accountability purposes when HRSDC has delegated another party to disburse the grants.

2.51 Control structure for the Canada Study Grants. HRSDC's payments to the provinces and territory for Canada Study Grants meet the definition of "other transfer payments" as defined in the Treasury Board Policy on Transfer Payments. Therefore, we expected HRSDC to meet the policy's objective of ensuring that there is sound management, control, and accountability of the transfer payments.

2.52 As it has done for Canada Student Loans and Canada Access Grants, HRSDC has developed policies and procedures for processing the Study Grants and has communicated them to the participating jurisdictions. However, the Department currently requires them to report only the total amount paid for Study Grants and the number of students receiving each type of Study Grant. HRSDC uses this information to allocate the funds for the next fiscal year. Some jurisdictions provide more details on grant recipients than others, but the data sets are not always complete and the Department cannot assess their accuracy. As a result, although the Department can account for the payments transferred to the provinces and the territory, it cannot assess whether those jurisdictions are awarding the correct amounts to the right students.

2.53 Recommendation. Human Resources and Social Development Canada should take appropriate measures to strengthen the control structure for the Canada Study Grants to obtain reasonable assurance that its grant eligibility criteria are being met.

Human Resources and Social Development Canada's response. The Department agrees that the Canada Student Loans Program would benefit from receiving more complete data and information to verify that the participating provinces and the Yukon are properly applying the eligibility criteria for Canada Study Grants on behalf of the federal government. To improve the accuracy of the control structure for the Study Grants, HRSDC will change the conditions that the participating provinces and the Yukon must meet in order to be eligible for payment of funds awarded as Study Grants. Effective for the 2007–08 loan year, the participating provinces and the Yukon will have to provide basic personal information (Social Insurance Number-level data) for each student awarded a Canada Study Grant in order to receive payment. Before the Department approves these payments, it will verify the data and will approve payments to the jurisdictions for those awards that meet the eligibility criteria. HRSDC recognizes that not all provinces have the same degree of preparedness with respect to their data systems and will work with each jurisdiction to set reasonable timelines for efforts to improve the data.

Control framework—The Canada Millennium Scholarship Foundation

2.54 The Canada Millennium Scholarship Foundation has delegated the responsibilities to both assess eligibility for its Millennium Bursaries and Access Bursaries and distribute them to the provinces and territories. Each province and territory is responsible for implementing controls to ensure compliance with the Foundation's requirements. The Foundation has an oversight role.

2.55 Therefore, we expected the Foundation to have implemented a control structure that includes

- risk assessments, so that controls are designed and adapted based on key risks;
- clear roles and responsibilities;
- clear communication of the Foundation's requirements, including policies and procedures; and
- a means to provide the Foundation with reasonable assurance that all parties are complying with its requirements.

The Foundation is assessing the risks of its bursary programs

2.56 As permitted by its enabling legislation, the Foundation has entered into a separate agreement with each provincial and territorial government. It conducts periodic reviews of the provinces' and territories' compliance with the requirements in the agreements. We found that these reviews provide it with sufficient information to identify the risks in the process for assessing eligibility and that the Foundation takes action on these risks.

Responsibilities and requirements are clearly defined

2.57 The Foundation's agreements with the provinces and territories clearly outline the roles and responsibilities of each party and the eligibility requirements that students must meet pursuant to the Foundation's enabling legislation. Detailed procedures on specific matters, such as data transfers, have also been developed.

Controls for eligibility assessments and disbursements are appropriate

2.58 **Eligibility.** We found that the Foundation has implemented adequate controls to ensure that eligibility for Millennium Bursaries and Access Bursaries is assessed correctly.

2.59 To be eligible for a bursary, students must first be approved for financial assistance by their province or territory of residence and then meet the Foundation's additional criteria. The Foundation's periodic reviews examine compliance with these criteria. (Quebec is an exception: It provides the Foundation with the provincial Auditor General's annual report, which includes information on whether that province is complying with the terms of its agreement.) To date, all provinces have been reviewed at least once. The results of these reviews are presented to the Foundation's Audit Committee and sent

by the Foundation to the Deputy Minister of Education of each province and territory.

2.60 The Foundation has also implemented controls to validate the information it receives from each province and territory in order to process the bursaries. These controls provide reasonable assurance that the information is complete, accurate, and valid.

2.61 **Disbursements.** The Foundation is responsible for approving, disbursing, and recording the bursaries. It issues the cheques directly to students in the Yukon, Northwest Territories, and Ontario. The Foundation sends the other provinces and Nunavut lump sums in trust for the bursary recipients to be paid directly to the students or applied to reduce their outstanding debt. We found that the Foundation has implemented key controls to ensure that the disbursement process is correct: It validates and reconciles the data for disbursements to ensure that it is complete and accurate, and its Board of Directors approves all payments.

Performance management—Canada Student Loans Program

2.62 The Canada Student Loans Program is intended to promote access to post-secondary education for students in financial need. To achieve this, the Program has set four goals:

- increase awareness;
- make the loan experience a positive one;
- ensure performance, integrity, and accountability; and
- maintain the government's commitment to access.

2.63 We expected Human Resources and Social Development Canada to have satisfactory procedures in place to

- collect the information necessary for measuring performance against the Program's goals;
- make the information available for decision makers to use for improving results; and
- report against objectives, including clear performance expectations, key results against expectations, and clear explanations for results that fall short of expectations.

HRSDC is taking steps to increase awareness of the Program

2.64 The first goal of the Canada Student Loans Program is to increase awareness of the Program. We found that HRSDC has gathered information that has enabled it to identify gaps in awareness

of the Program among potential post-secondary students and their families. We also found that the Department has acted on its findings.

2.65 Specifically, HRSDC conducted research and surveys between 2004 and 2006 that indicated a lack of awareness about the federal financial assistance programs for post-secondary students. The Department now works with the provinces and the territory to promote the Program. Examples of its efforts include the following:

- a pan-Canadian five-year communication campaign, begun in 2005, to encourage parents to plan and save for their children's education;
- an upgrade to the "CanLearn" website, which explains how to apply for, maintain, and repay federal and provincial or territorial student loans; and
- a pilot project (2005–06) in one province for the Canada Student Loans Program to test peer-to-peer communication. In the project, students were trained to make presentations at high schools; the Department plans to expand the project to another province in 2007.

2.66 HRSDC also conducted qualitative research to refine its communication material and media approach for the Program. As a result, it designed a more concise version of its information guide.

Client satisfaction with the Program is near target

2.67 The second goal of the Canada Student Loans Program is to make the loan experience a positive one.

2.68 HRSDC conducts annual surveys of borrowers to measure their satisfaction with the Program's service delivery. According to these surveys, satisfaction levels have ranged between 63 percent and 75 percent since 2002. For 2006–07, the Department has set a target of 76 percent.

2.69 HRSDC offers a payment incentive to the service providers based in part on survey results that exceed set performance thresholds. In the 2004 to 2006 surveys, overall borrower satisfaction ratings met or exceeded these thresholds. Borrowers gave higher ratings to the service providers on several elements of client service, such as accuracy of information, courteousness, and receipt of communications in the official language of choice. However, they gave lower ratings to the service providers for the time callers were waiting on the telephone for service and the extent to which problems were resolved to the

borrowers' satisfaction. HRSDC's new contract with a single service provider contains some new service incentives, including a shorter standard response time from the call centres and a flexible incentive scheme that can be fine-tuned as part of a process that is renewed annually.

The Program's Portfolio Management Strategy is well managed and achieving results

2.70 The third goal of the Canada Student Loans Program is to ensure the Program's performance, integrity, and accountability.

2.71 As already noted (see paragraph 2.35), HRSDC uses a number of ways to ensure program integrity and accountability. Reducing the number of defaulted loans is another important part of achieving the Program's third goal. Early in the shift to providing loans directly instead of through financial institutions, HRSDC developed its Portfolio Management Strategy as a response to what it perceived as high default rates. The strategy's main goals are to reduce loan default rates and improve program integrity through sound debt management and good communication with borrowers.

2.72 Program officials meet monthly with the service providers to discuss the performance and integrity of the portfolio and to identify trends and emerging challenges. HRSDC regularly reviews reports from the service providers about the portfolio, and about their performance against contract obligations and use of debt management measures.

2.73 The Department has improved communication with Program borrowers who are repaying their loans, and it continues to work with service providers to improve their communication with high-risk borrowers. It has implemented measures proposed by the service providers, based on their experience in loan management. These measures include conducting risk profiles of borrowers, maintaining regular contact with borrowers, and enhancing the tracing of delinquent borrowers. The Department measures the results of these initiatives through the monthly performance reports it receives from the service providers. **Annual default rates** decreased from around 22 percent to 9 percent between 2002 and 2006.

Annual default rate—The percentage of loans in repayment that are turned over to the Canada Revenue Agency for collection during a year.

2.74 Despite improvements in the default rate, the Department's analysis shows that students lack awareness about the Program's debt management measures. HRSDC has conducted studies to find out more about borrowers who have defaulted and about those who use interest relief. In 2005, it set up focus groups on interest relief; in 2006,

together with Statistics Canada, it published a study on the use of the Interest Relief Program. The study noted that this program was used by only 45 percent of eligible borrowers in the repayment phase. To increase the use of debt management measures, the Department has drafted a communication plan and raised the income threshold for interest relief eligibility; it is also considering other actions.

HRSDC needs to measure the Program's performance on access

2.75 The fourth goal of the Program is to maintain the government's commitment to making post-secondary education more accessible to Canadians.

2.76 We found that HRSDC does not have a sound performance measurement strategy for access—that is, a means to select and develop measures for ongoing use in decision making. Without a clear strategy, it cannot effectively and consistently measure and report on whether the Program is achieving the access goal.

2.77 In 2003, HRSDC identified a number of performance indicators on access. However, it has not developed a systematic approach to collecting appropriate information and putting it to use.

2.78 The Department collects some performance data from its program partners. However, they often submit the data in different formats, with different elements, and at different times. The Department told us that the information is insufficient to meet its needs and that it is working to harmonize and simplify the systems and practices to fix this. Even where the Department does have provisions for exchanging data with provinces—for example, as part of the integration agreements (see paragraph 2.9)—these provisions are not used. Moreover, HRSDC has no single repository for the data that it collects and no business process rules for managing the data.

Summative evaluation—An examination of the impacts of a program in order to make a decision about its effectiveness. This examination is typically undertaken at the end of a specified program cycle when intermediate and longer-term outcomes begin to be realized, and it focuses on the extent to which the program has contributed to the achievement of outcomes.

2.79 In 2001, HRSDC committed to completing a **summative evaluation** of the Canada Student Loans Program in 2006. The Department began planning the evaluation in 2006, approaching it as a series of studies to be completed by 2011. Officials told us that this approach would be included in the departmental five-year evaluation plan, which was scheduled for approval early in 2007. At the time of the audit, plans had been clearly defined for only the first two years and consisted mainly of feasibility and concept studies. Without a more precise framework, the evaluation risks losing focus while being further delayed.

2.80 Recommendation. Human Resources and Social Development Canada should develop a sound performance measurement strategy for the Canada Student Loans Program's goal to make post-secondary education more accessible to Canadians.

Human Resources and Social Development Canada's response. The Department has a performance measurement strategy for the Canada Student Loans Program and reports on the goal of making post-secondary education more accessible to Canadians. It reports on program performance through the Program's Annual Report, the Departmental Performance Report, the Report on Plans and Priorities, and its website. The Department will better articulate this performance measurement strategy in a single framework document.

2.81 Recommendation. Human Resources and Social Development Canada should complete a summative evaluation that focuses on program impacts and outcomes and should do so within the five years specified in its plans.

Human Resources and Social Development Canada's response. Departmental management has adopted a five-year phased approach to the summative evaluation of the impacts and outcomes of the Canada Student Loans Program. The evaluation is under way, with the first synthesis report of the evaluative work available in 2006–07. Annual synthesis reports will be produced, culminating in a final summary report on program outcomes, which will be available in 2011.

Parliament does not have a full picture of the Program's performance

2.82 We found that the Department's reporting on program results is fragmented; some significant matters are reported in the Departmental Performance Report and others are stated in the Canada Student Loans Program Annual Report.

2.83 In its 2005–06 Departmental Performance Report, HRSDC reported on three indicators for the Canada Student Loans Program: the client satisfaction level, the **three-year loan default rate**, and the number of students receiving federal loans for post-secondary education. However, these indicators were not clearly linked to the Program's strategic goals. Moreover, the Department did not report on whether it had increased awareness of the Program or had improved access to post-secondary education. In part, this reflects the absence of a sound performance measurement strategy for the access goal (see paragraph 2.76).

Three-year loan default rate—The percentage of loans for which repayment is due to begin in a particular year and that are turned over to the Canada Revenue Agency for collection within three years.

2.84 The *Canada Student Financial Assistance Act* requires the Department to table an annual report to Parliament on the Canada Student Loans Program. The 2003–04 Annual Report gives details on program activities and outputs—for example, the number of student loans given in each province and territory. However, it does not report against targets or specify whether the Program is meeting its goals. Further, the Department tabled the Program's 2003–04 Annual Report in August 2006; at the time of our audit, it had not yet tabled the 2004–05 Annual Report.

2.85 We noted that in its 2006–07 Report on Plans and Priorities, the Department set expectations for only two of its four strategic goals—making the loan experience a positive one and improving performance, integrity, and accountability. It did not set targets for increasing awareness of the Program or improving access to post-secondary education.

2.86 Through the arrangement for conditional grants, HRSDC is required to include in its Report on Plans and Priorities and Departmental Performance Report significant expected results from the Canada Millennium Scholarship Foundation and to situate these within the Department's overall results. Its 2004–05 Departmental Performance Report provided timely information on the Foundation's activities and outputs but did not explain how they related to the Department's own results. The 2005–06 Departmental Performance Report has minimal information about the Foundation.

2.87 Recommendation. In its Departmental Performance Report, Human Resources and Social Development Canada should consolidate and improve its reporting on key indicators of progress toward the strategic goals of the Canada Student Loans Program and clarify how the activities of the Canada Millennium Scholarship Foundation relate to its own activities and goals. It should also provide for timelier tabling of the Canada Student Loans Program Annual Report.

Human Resources and Social Development Canada's response. As noted in the Department's response to recommendation 2.80, the Department will articulate its performance measurement strategy for the Canada Student Loans Program in one framework document. This will consolidate all existing and potential key indicators for reporting on the progress of the Program. It should be noted that availability of data for the potential indicators is a challenge as not all provinces have the same degree of preparedness for their data systems. However, the Department will work to ensure that these key indicators will continue

to be monitored appropriately and results will be reported when available through future departmental performance reports. Furthermore, the Department will report on the relationship between the Canada Millennium Scholarship Foundation's activities and its own through its departmental performance reports, while recognizing the arms-length status of the Foundation. HRSDC will improve the time frame within which it tables the Canada Student Loans Program Annual Report each year.

Performance management—Canada Millennium Scholarship Foundation

2.88 The Foundation's main objective is to improve access to post-secondary education. It is committed to

- increasing the visibility of its programs,
- delivering bursaries to eligible students, and
- improving its understanding of issues related to access.

2.89 We expected the Foundation to have satisfactory procedures in place to

- collect the information necessary for measuring performance against objectives;
- make the information available for decision makers to use in improving results; and
- report against objectives, including clear performance expectations, key results against expectations, and clear explanations for results that fall short of expectations.

The Foundation collects and uses performance information

2.90 **Visibility of the programs.** We found that the Foundation has been gathering relevant information on awareness of its programs. It is using this information to increase their visibility.

2.91 For example, the Foundation conducted a series of surveys between 2001 and 2003 on financial assistance programs for post-secondary education, and in 2004 it held broad-based consultations with students, parents, and education professionals. These surveys and consultations showed that the Foundation lacked visibility. During our audit, the Foundation was conducting a survey on awareness of its own programs and planned to publish the results early in 2007. It was also seeking to collaborate with HRSDC and the provinces and territories to produce a new pamphlet with specific information on its Millennium and Access Bursaries.

2.92 The Foundation's research showed that awareness efforts should focus on high school students who often get information about financial assistance through peers, parents, teachers, counsellors, and others. Therefore, the Foundation has launched three pilot projects in high schools to increase awareness of and participation in post-secondary education. It is also targeting information to parents and others who interact with high school students.

2.93 Perceptions of services in delivering bursaries. The Foundation has little interaction with recipients of the Millennium and Access Bursaries and currently has limited information about their perceptions of its services. To fill this gap, the survey on awareness also sought Millennium Bursary recipients' perception of the Foundation's services.

2.94 Understanding of access issues. The Foundation needs to gather and assess data from provinces and territories to measure its programs' results and impacts. The Foundation's agreements with provinces and territories specify what data they are to provide about award recipients and when they should send the data. We found that the Foundation's systems and practices are adequate to ensure that it collects good-quality data in a timely manner.

2.95 The Foundation's research program provides additional information about the results of its bursary programs. The research aims to enhance understanding of barriers to post-secondary education and to provide data and analysis to monitor the impact of the Foundation's bursary programs. Research reports are shared with decision makers and the public.

2.96 From research and its 2004 consultations, the Foundation found that certain groups were under-represented in the post-secondary student population and that it needed to expand its program coverage. In 2005 it created its Access Bursary program to encourage low-income, rural, and Aboriginal students to continue their education. At the time of the audit, it was conducting an initial assessment of this program. The Foundation plans to complete an evaluation of its awareness efforts and Access Bursary program by 2009.

2.97 The Foundation's enabling legislation stipulates that it is to grant scholarships in a manner that complements provincial and territorial financial assistance programs for post-secondary students. When the Foundation initiated its Millennium Bursary program in 1999, it conducted assessments of the provincial and territorial programs. It did

so again in 2004 and most recently in November 2006. It has also done further assessments of provinces' and territories' programs as needed. The Foundation has concluded that its own program complements those of the provinces and territories.

The Foundation provides the required information to Parliament

2.98 The Foundation's enabling legislation requires it to provide the Minister of Human Resources and Social Development with an annual report on its performance, including audited financial statements. The government also requires (in Budget 2003 commitments) that the Foundation provide summaries of its corporate plans to Parliament. We found that the Foundation is meeting these requirements. While its past reports only described activities, its more recent annual reports (2004 and 2005) provide additional details about the Foundation's impact on reducing student debt and increasing student funds.

Consultation between HRSDC and the Foundation

HRSDC and the Foundation need to improve arrangements for consulting together

2.99 Human Resources and Social Development Canada and the Canada Millennium Scholarship Foundation are working toward the same public policy objective—improved access to post-secondary education. In our 2005 February Status Report, Chapter 4, Accountability of Foundations, we said that strategic monitoring of foundations by sponsoring departments, in the form of contact and consultations, is a good practice for sound delivery of shared public policy. In this audit, we found that HRSDC and the Foundation could improve their exchange of information on issues of mutual interest, which would help achieve their shared objective.

2.100 For example, they do not always exchange information that would be useful for the delivery of shared public policy. Under its agreements with provinces and the territories, the Foundation conducts regular reviews in most jurisdictions to verify that its eligibility criteria for bursaries have been met. Although these reviews focus on the Foundation's criteria, HRSDC's loan and grant programs share some of the same criteria. For example, recipients of both the Foundation's and the Department's bursaries, grants, and loans must be permanent residents of Canada. However, we found that audit findings that would be of interest to HRSDC are not necessarily shared.

2.101 In another case, the Department and the Foundation communicated on program issues, but the exchange was not well documented. Responding to research findings that some

populations were not being reached by federal, provincial, and territorial student financial assistance programs, HRSDC set up the Canada Access Grant program and the Foundation set up its Access Bursary program. The eligibility criteria of these programs are similar. To avoid duplication or overlap, officials from both organizations communicated informally before implementing the programs. The Department's and the Foundation's programs are now complementary. However, little of the content of these consultations and their outcomes was documented. It is important that the two organizations improve their arrangements for consulting on any future program changes to ensure that they continue to be well coordinated. It is also important to document these exchanges to aid future decision making.

2.102 We found that HRSDC and the Foundation have developed a good research relationship. They co-fund a number of research projects aimed at gaining a better understanding of student financial assistance and its impacts on access to post-secondary education. The Department told us that over the last year, there have been more frequent discussions of research and improved consultations with the Foundation on program and policy issues.

2.103 Recommendation. Human Resources and Social Development Canada and the Canada Millennium Scholarship Foundation should improve their arrangements for consulting one another on issues of mutual interest in order to achieve their shared objective. The two organizations should document their consultations and the outcomes to aid future decision making.

Human Resources and Social Development Canada's response. Officials of the Canada Student Loans Program consult with officials of the Canada Millennium Scholarship Foundation regularly on areas of shared program objectives while recognizing the arms-length status of the Foundation. The Department will institute procedures to ensure that results of key discussions with the Foundation are recorded to aid future decision making for areas of shared program outcomes or policy development interests. In support of improved consultation, HRSDC has invited the Foundation to join the National Advisory Group on Student Financial Assistance, which will meet twice annually starting in March 2007. The results of the National Advisory Group's consultations are documented in formal minutes and records of decision.

The Canada Millennium Scholarship Foundation's response. The Canada Millennium Scholarship Foundation looks forward to continuing its consultation with Human Resources and Social

Development Canada (HRSDC) in the future and will document exchanges of information when appropriate. Where improved arrangements are required, it is the Foundation's view that these arrangements acknowledge the importance of both organizations consulting not only each other but also the provinces and territories. In this regard, the Foundation welcomes HRSDC's recent invitation to join the National Advisory Group on Student Financial Assistance, a group that includes among its members both the federal and the provincial co-chairs of the Intergovernmental Consultative Committee on Student Financial Assistance. The Committee serves as the federal-provincial multilateral forum for consultation on policy and program development on student assistance. The Foundation will send a representative to meetings of the National Advisory Group beginning in the spring of 2007. In addition, the Foundation believes it would be useful to be invited periodically to attend meetings of the Intergovernmental Consultative Committee. The Foundation would welcome the opportunity to appear before the Committee annually or biannually to present an update on its operations and plans, to review issues raised in audits and other reviews, and to consult with its federal, provincial, and territorial colleagues on issues of mutual interest.

Conclusion

2.104 With a few exceptions, the Canada Student Loans and the Canada Access Grant programs are well managed and have the necessary controls in place.

2.105 HRSDC has appropriate controls in place to ensure that its partners in the delivery of Canada Student Loans and Access Grants are exercising due care in their responsibilities. However, the Department has not clearly documented the information that it gathers on the adequacy of controls for assessing eligibility for its loans and Access Grants. HRSDC's control structure for the Canada Study Grants does not provide the Department with adequate assurance that its eligibility criteria are being met.

2.106 The Canada Revenue Agency monitors the performance of private collection agencies, and Human Resources and Social Development Canada monitors the consistency of information provided by the agencies. However, neither organization adequately monitors other key collection requirements of the Canada Student Loans Program.

2.107 HRSDC is taking steps to enhance awareness of its loan and grant programs and of the measures available to help students manage debt. However, lack of a clear performance measurement strategy has contributed to incomplete reporting of the results of the Canada Student Loans Program. The Department has postponed the program evaluation that it had committed to doing by 2006. It has not yet fully defined the framework for the evaluation, thus risking further delays. Consequently, is has not yet given Parliament a full picture of the Program's performance.

2.108 The Canada Millennium Scholarship Foundation's bursary programs are well managed. The Foundation has the necessary controls in place to ensure that bursaries are distributed correctly. It also obtains reasonable assurance that the provinces and territories are fulfilling their responsibilities in delivering the programs.

2.109 The Foundation is taking steps to improve general awareness of its Millennium Bursaries. It collects adequate performance information and meets its obligation to report the results of its activities to Parliament. It has used this information together with its research findings to try to reach more students through its Access Bursaries.

2.110 HRSDC and the Foundation are both working to improve access to post-secondary education. Improving their arrangements for consulting on issues of mutual interest would help achieve this shared objective.

About the Audit

Objective

The audit objective was to determine whether federal loan and debt reduction programs for post-secondary students are managed to improve access to post-secondary education while ensuring that the necessary controls are in place.

Scope and approach

The scope of the audit included

- the Canada Student Loans Program—the loans program under the direct loans regime, and the Canada Access and Study Grants; and
- the Millennium Bursary and Millennium Access Bursary programs of the Canada Millennium Scholarship Foundation.

The main entities involved in the audit were Human Resources and Social Development Canada, the Canada Revenue Agency (CRA), and the Canada Millennium Scholarship Foundation. We examined practices at the national headquarters of each organization and visited one of the two CRA regional offices responsible for loan collections.

We conducted interviews, document reviews, data analyses, and procedural walk-throughs to assess whether the entities were meeting our audit criteria. We also reviewed documents prepared by audit firms engaged by HRSDC and the Foundation and interviewed some of the firms' personnel to ensure that we could use their work as key controls.

In addition, we reviewed documents of other federal organizations that contribute to delivering federal post-secondary loan and grant programs: the Department of Finance, Public Works and Government Services Canada, and the Treasury Board Secretariat.

We conducted audit work on the current program of direct loans but not on repayments due under the former program arrangements under which private-sector financial institutions gave loans to students.

We did not audit any other federal programs that support post-secondary education; nor did we conduct audit work in provinces and territories or at any of the private sector agencies that provide program services.

We did not audit the Foundation's merit awards programs or its research activities.

In the contracts signed between parties involved in the loan and grant programs, we examined only the terms that were relevant to delivering the programs and ensuring that the necessary controls are in place. We did not examine how the contracts were awarded or managed.

Criteria

The criteria for the audit were based on

- the results management framework for the Government of Canada,
- the Treasury Board Secretariat's guides for performance evaluation and reporting,
- our Office's recent reports on results measurement and reporting,
- the Treasury Board Policy on Transfer Payments, and
- recognized standards of sound business and financial practices.

The criteria were the following:

- Appropriate controls are in place to ensure that programs are delivered in compliance with legislation, policy, agreements, and contracts.
- Information on programs is easy to find and understand, and services are provided in ways that are accessible and convenient.
- Satisfactory procedures are in place to collect and use performance information to manage programs and to report on program results.

Audit work completed

Audit work for this chapter was substantially completed on 30 November 2006.

Audit team

Assistant Auditor General: Nancy Cheng
Principal: Sylvain Ricard
Directors: Nicholas Swales and Esther Becker

Kasia Borowska
Lucie Cardinal
Véronique Duguay
Annik Leblanc
Marc Legrand
TinaLise LeGresley
Felix Meunier
Stephanie Moores
Julie Salois

For information, please contact Communications at 613-995-3708 or 1-888-761-5953 (toll-free).

Appendix List of recommendations

The following is a list of recommendations found in Chapter 2. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Control framework—Canada Student Loans Program	
2.38 To ensure that the knowledge acquired about the provinces' and the territory's processes for eligibility and needs assessments is available for managing the Canada Student Loans Program, Human Resources and Social Development Canada should document its conclusions on the adequacy of controls and any related action taken. (2.36–2.37)	The Department agrees that the Canada Student Loans Program would benefit from better documentation of provincial and territorial processes for eligibility and needs assessment. Program officials already meet regularly with officials from participating jurisdictions to share information on their respective controls of these processes. The Department will institute procedures to ensure that its conclusions on the adequacy of the Program's controls for eligibility and needs assessments are documented.
2.44 The Canada Revenue Agency should develop and implement a formal quality assurance program to monitor whether collection procedures for the Canada Student Loans Program are followed properly in its regional offices. (2.39–2.43)	The Agency agrees with this recommendation. As noted by the Office of the Auditor General, the Agency has continued to move forward with an extensive modernization strategy to improve the recovery of debts owed since it assumed responsibility for the collection of defaulted Canada Student Loans in August 2005. The strategy already provides for resources to be dedicated to the monitoring of collection procedures and performance of the Agency's staff dedicated to this activity. The Agency has completed the necessary procedural and operational requirements to fully implement a formal monitoring framework, commencing the first quarter of the 2007–08 fiscal year.

Recommendation	Response
2.48 The Canada Revenue Agency and Human Resources and Social Development Canada should strengthen the monitoring of private collection agencies to ensure their compliance with contractual and administrative requirements of the Canada Student Loans Program. **(2.45–2.47)**	**Human Resources and Social Development Canada's response.** The Department agrees with the recommendation. The Canada Revenue Agency (CRA) assumed responsibility for the collection of defaulted Canada Student Loans starting in August 2005, and thus it is responsible for private collection agencies' compliance with the collection directives. Human Resources and Social Development Canada (HRSDC)/ Service Canada maintained responsibility for establishing overpayments, reporting on the outstanding debt for HRSDC clients, recording the payments received from the private collection agencies, and ensuring client accounts are reconciled. HRSDC/Service Canada will leverage the CRA's efforts toward strengthening the monitoring of the private collection agencies and ensure compliance with administrative requirements. With respect to the Office of the Auditor General's observation of the private collection agencies' handling and remittance of accounts, HRSDC/Service Canada implemented the Single System of Record on 19 January 2007. Payments are now received directly by HRSDC/Service Canada, thus reducing the risk of non-reconciliation of account information. HRSDC/ Service Canada will closely monitor any exceptional payments made to private collection agencies to ensure accuracy between remittances and account information. **The Canada Revenue Agency's response.** The Agency agrees with this recommendation. As noted by the Office of the Auditor General, the Agency has continued to move forward with an extensive modernization strategy to improve the recovery of debts owed since it assumed responsibility for the collection of defaulted Canada Student Loans in August 2005. The strategy provides for the monitoring of private collection agencies in respect of their performance and compliance with contractual and administrative requirements. The Agency has completed the necessary procedural and operational requirements to fully implement a formalized monitoring framework, commencing the first quarter of the 2007–08 fiscal year.

Recommendation	Response
2.53 Human Resources and Social Development Canada should take appropriate measures to strengthen the control structure for the Canada Study Grants to obtain reasonable assurance that its grant eligibility criteria are being met. **(2.49–2.52)**	The Department agrees that the Canada Student Loans Program would benefit from receiving more complete data and information to verify that the participating provinces and the Yukon are properly applying the eligibility criteria for Canada Study Grants on behalf of the federal government. To improve the accuracy of the control structure for the Study Grants, HRSDC will change the conditions that the participating provinces and the Yukon must meet in order to be eligible for payment of funds awarded as Study Grants. Effective for the 2007–08 loan year, the participating provinces and the Yukon will have to provide basic personal information (Social Insurance Number-level data) for each student awarded a Canada Study Grant in order to receive payment. Before the Department approves these payments, it will verify the data and will approve payments to the jurisdictions for those awards that meet the eligibility criteria. HRSDC recognizes that not all provinces have the same degree of preparedness with respect to their data systems and will work with each jurisdiction to set reasonable timelines for efforts to improve the data.
Performance management—Canada Student Loans Program	
2.80 Human Resources and Social Development Canada should develop a sound performance measurement strategy for the Canada Student Loans Program's goal to make post-secondary education more accessible to Canadians. **(2.75–2.78)**	The Department has a performance measurement strategy for the Canada Student Loans Program and reports on the goal of making post-secondary education more accessible to Canadians. It reports on program performance through the Program's Annual Report, the Departmental Performance Report, the Report on Plans and Priorities, and its website. The Department will better articulate this performance measurement strategy in a single framework document.
2.81 Human Resources and Social Development Canada should complete a summative evaluation that focuses on program impacts and outcomes and should do so within the five years specified in its plans. **(2.79)**	Departmental management has adopted a five-year phased approach to the summative evaluation of the impacts and outcomes of the Canada Student Loans Program. The evaluation is under way, with the first synthesis report of the evaluative work available in 2006–07. Annual synthesis reports will be produced, culminating in a final summary report on program outcomes, which will be available in 2011.

Recommendation	Response
2.87 In its Departmental Performance Report, Human Resources and Social Development Canada should consolidate and improve its reporting on key indicators of progress toward the strategic goals of the Canada Student Loans Program and clarify how the activities of the Canada Millennium Scholarship Foundation relate to its own activities and goals. It should also provide for timelier tabling of the Canada Student Loans Program Annual Report. **(2.82–2.86)**	As noted in the Department's response to recommendation 2.80, the Department will articulate its performance measurement strategy for the Canada Student Loans Program in one framework document. This will consolidate all existing and potential key indicators for reporting on the progress of the Program. It should be noted that availability of data for the potential indicators is a challenge as not all provinces have the same degree of preparedness for their data systems. However, the Department will work to ensure that these key indicators will continue to be monitored appropriately and results will be reported when available through future departmental performance reports. Furthermore, the Department will report on the relationship between the Canada Millennium Scholarship Foundation's activities and its own through its departmental performance reports, while recognizing the arms-length status of the Foundation. HRSDC will improve the time frame within which it tables the Canada Student Loans Program Annual Report each year.
Consultation between HRSDC and the Foundation	
2.103 Human Resources and Social Development Canada and the Canada Millennium Scholarship Foundation should improve their arrangements for consulting one another on issues of mutual interest in order to achieve their shared objective. The two organizations should document their consultations and the outcomes to aid future decision making. **(2.99–2.102)**	**Human Resources and Social Development Canada's response.** Officials of the Canada Student Loans Program consult with officials of the Canada Millennium Scholarship Foundation regularly on areas of shared program objectives while recognizing the arms-length status of the Foundation. The Department will institute procedures to ensure that results of key discussions with the Foundation are recorded to aid future decision making for areas of shared program outcomes or policy development interests. In support of improved consultation, HRSDC has invited the Foundation to join the National Advisory Group on Student Financial Assistance, which will meet twice annually starting in March 2007. The results of the National Advisory Group's consultations are documented in formal minutes and records of decision. **The Canada Millennium Scholarship Foundation's response.** The Canada Millennium Scholarship Foundation looks forward to continuing its consultation with Human Resources and Social Development Canada (HRSDC) in the future and will document exchanges of information when appropriate. Where improved arrangements are required, it is the Foundation's view

Recommendation	Response
	that these arrangements acknowledge the importance of both organizations consulting not only each other but also the provinces and territories. In this regard, the Foundation welcomes HRSDC's recent invitation to join the National Advisory Group on Student Financial Assistance, a group that includes among its members both the federal and the provincial co-chairs of the Intergovernmental Consultative Committee on Student Financial Assistance. The Committee serves as the federal-provincial multilateral forum for consultation on policy and program development on student assistance. The Foundation will send a representative to meetings of the National Advisory Group beginning in the spring of 2007. In addition, the Foundation believes it would be useful to be invited periodically to attend meetings of the Intergovernmental Consultative Committee. The Foundation would welcome the opportunity to appear before the Committee annually or biannually to present an update on its operations and plans, to review issues raised in audits and other reviews, and to consult with its federal, provincial, and territorial colleagues on issues of mutual interest.

Report of the Auditor General of Canada to the House of Commons—May 2007

Main Table of Contents

	A Message from the Auditor General of Canada **Main Points—Chapters 1 to 7**
Chapter 1	Use of Acquisition and Travel Cards
Chapter 2	Federal Loans and Grants for Post-Secondary Education—Human Resources and Social Development Canada and Canada Millennium Scholarship Foundation
Chapter 3	Human Resources Management—Foreign Affairs and International Trade Canada
Chapter 4	Canadian Agricultural Income Stabilization—Agriculture and Agri-Food Canada
Chapter 5	Managing the Delivery of Legal Services to Government—Department of Justice Canada
Chapter 6	Modernizing the NORAD System in Canada—National Defence
Chapter 7	Management of Forensic Laboratory Services—Royal Canadian Mounted Police

Government Publications

CA1
AG
A55

2007



Report of the Auditor General of Canada to the House of Commons

MAY

Chapter 3
Human Resources Management—
Foreign Affairs and International Trade Canada

Office of the Auditor General of Canada



2007



Report of the

Auditor General of Canada

to the House of Commons

MAY

Chapter 3

Human Resources Management—
Foreign Affairs and International Trade Canada

Office of the Auditor General of Canada

The May 2007 Report of the Auditor General of Canada comprises a Message from the Auditor General of Canada, Main Points—Chapters 1 to 7, and seven chapters. The main table of contents for the Report is found at the end of this publication.



The Report is available on our website at www.oag-bvg.gc.ca.

For copies of the Report or other Office of the Auditor General publications, contact

Office of the Auditor General of Canada
240 Sparks Street, Stop 10-1
Ottawa, Ontario
K1A 0G6

Telephone: 613-952-0213, ext. 5000, or 1-888-761-5953
Fax: 613-943-5485
Hearing impaired only TTY: 613-954-8042
Email: distribution@oag-bvg.gc.ca

Ce document est également publié en français.

© Minister of Public Works and Government Services Canada 2007
Cat. No. FA1-2007/2-3E
ISBN 978-0-662-45620-9

Chapter

3

Human Resources Management

Foreign Affairs and International Trade Canada

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Table of Contents

Main Points 1

Introduction 3

The Department's role 3
Human resources structure 3
Human resources challenges 4
Focus of the audit 6

Observations and Recommendations 6

Human resources planning 6

The Department has no strategic human resources plan 7
The Department is developing a strategic human resources plan 8
The lack of workforce data is hampering human resources planning and management 9

Workforce management 10

Relying on traditional recruitment methods might not be sustainable 11
The Department cannot fill its needs on a timely basis through promotions 12
The assignment process does not yield the intended results 14
Foreign language requirements are not met 15
The management of locally engaged staff gets little attention 16
There is little flexibility to compensate and provide incentives to staff for living abroad 18
Barriers to spousal employment are disincentives for working abroad 21

Conclusion 23

About the Audit 25

Appendix

List of recommendations 27



Human Resources Management
Foreign Affairs and International Trade Canada

Main Points

What we examined

The Department of Foreign Affairs and International Trade operates in a highly challenging and complex environment that requires it to respond quickly to changing local and international circumstances. It has staff based in Canada and in over 170 missions abroad, where it also employs a culturally diverse local workforce of over 5,000 employees who are subject to various local labour laws. In the 2005–06 fiscal year, the Department spent $830 million on salaries and benefits.

We examined whether the Department plans for and manages its human resources in a way to ensure that it has the people with the right skills and competencies to carry out its mandate. Our audit included interviews, file reviews, and data analysis at the Department's headquarters in Ottawa and at 12 of its missions abroad.

Why it's important

Canada relies on the people who work in its foreign missions to be its "face abroad." They represent Canada in such fields as political, trade and business relations, diplomacy, culture, and human rights. Canadians travelling abroad depend on the missions for a range of assistance, from replacing lost passports to determining their whereabouts, and seeing to their safety in emergency situations. The government relies on the Department for timely, high-quality advice on international issues to help it formulate foreign policy. The Department also has a position of leadership toward other government departments operating abroad to ensure a unified Canadian approach.

It is important to Canadians that the Department have the right people in the right place at the right time and that it be able to act quickly and decisively in a rapidly changing environment. Given the complexity of its workforce, its international role, and the demographic challenge it faces, strategic planning and management of its human resources are critical to achieving its mandate.

What we found

- The Department has no strategic human resources plan. It does not have a complete picture of the people, competencies, and experience it will need in the future, and it lacks basic information needed to

plan for and manage its workforce. For example, it does not have accurate information on the number of vacant positions it has to fill. Until recently, the Department has paid little attention to human resources planning. Since the 2005–06 fiscal year, it has engaged in a major effort to develop a strategic planning framework for managing its people, but much remains to be done.

- The Department has been unable through its recruitment, promotion, and assignment processes to fill its positions on a timely basis with enough people who have all the required skills and competencies. Fifty-eight per cent of its employees in the management category will be eligible to retire by 2010; for all categories combined, the figure is 26 percent. Already, departures now outnumber new hires. These are strong indications that the Department is at risk of not having the human resources it will need to carry out its mandate effectively.
- The process in place to compensate employees for living conditions abroad and provide incentives for hardship postings has not allowed the Department to respond in a timely way to changing circumstances and the problems employees face as a result. This hinders the Department's ability to assign qualified staff to some of its missions around the world. Despite concerns expressed over many years by our Office and various stakeholders, this issue has not been resolved.
- The management of locally engaged staff, who constitute half of the Department's workforce, gets little attention. The Department does not have all the information it needs to properly manage these employees and is not adequately supporting its missions in their human resources management responsibilities.

The Department of Foreign Affairs and International Trade and the Treasury Board Secretariat have responded. The Department of Foreign Affairs and International Trade and the Treasury Board Secretariat have agreed with our recommendations. Their detailed responses follow the recommendations throughout the chapter.

Introduction

The Department's role

3.1 The Department of Foreign Affairs and International Trade delivers on Canada's international agenda by carrying out four key functions:

- leading and coordinating international policy-making for the Government of Canada;
- promoting Canadian interests, values, and expertise abroad;
- assisting Canadian business and the public by providing trade, investment, consular, and passport services; and
- providing the facilities and administrative infrastructure outside Canada that enables the global operations of the entire federal government and the provincial governments.

3.2 In 2005 the Government of Canada tabled its International Policy Statement, which, among other responsibilities, gave the Department a clear role to play in coordinating Canada's efforts on the international scene. One of the policy's key priorities is to enhance Canada's relationship with the United States, and to broaden and deepen its ties with rising powers such as China, India, and Brazil.

3.3 The Department is headquartered in Ottawa. It operates about 170 **missions** in 111 countries around the world to represent the Government of Canada and advance Canadian interests bilaterally with other countries or multilaterally with international organizations.

Mission—An office of the Government of Canada outside of Canada. This includes an embassy or high commission, consulate general, consulate, and mission to a multilateral organization such as the United Nations.

Human resources structure

3.4 The Department is organized into two operational and eight functional branches, as well as two administrative branches, one of which is dedicated to supporting the management of human resources (Human Resources Branch). For each mission abroad, there is a head of mission (such as an ambassador) who is responsible for the management, direction, and supervision of the official activities of the various departments and agencies of the Government of Canada at the mission.

3.5 In the 2005–06 fiscal year, the Department spent $830 million on salaries and benefits out of a total budget of approximately $2.1 billion.

Human resources challenges

3.6 Canada relies on the people who work in its missions to be its "face abroad." The advent of globalization, pandemics, and terrorism affects the way the Department conducts its business and manages its employees. As a result, the Department encounters growing demands for its services from other government departments, clients such as Canadian companies needing export assistance, and individual Canadians.

3.7 Employees work out of the Department's headquarters in Ottawa, but staff are also posted to missions around the world. These postings involve varying degrees of hardship due to health and safety concerns and living conditions for the staff and their families. Since 1991 the number of missions rated with the highest level of hardship (considered dangerous or difficult) has risen from 15 to 32.

3.8 In addition to managing staff around the world, another of the Department's unique human resources challenges lies with the management of the following three distinct categories of employees (Exhibit 3.1).

- Canada-based non-rotational staff are employees based in Canada who do not rotate locations. Most of these employees work at headquarters in Ottawa, and most who are non-executive are unionized.
- Canada-based rotational staff are employees based in Canada who can be required to rotate every two to four years to a position at headquarters or at missions abroad. Most of this group who are non-executive are unionized.
- Locally engaged staff (LES) are employees who work in Canada's missions abroad who are mostly from the local workforce. They are not unionized and are subject to various local labour laws.

3.9 Locally engaged staff are subject to local laws, but also to some Canadian laws and regulations since they work for the Government of Canada. Canada employs about 5,100 LES at its missions around the world. Roughly 1,500 of them work for programs led by Citizenship and Immigration Canada or by other government departments.

3.10 Another human resources management challenge is presented by the *Public Service Modernization Act*, the provisions for which came fully into force in December 2005. The new legislation aims to simplify the competitive process and shorten the time it takes to fill positions. However, it requires significant adaptation on the part of both

employees and line managers in all departments to accommodate the new responsibilities and accountability. For example, managers can now take other factors into consideration when making decisions to fill positions. These include not only essential qualifications for the position, but also other qualifications considered assets for the work to be performed. Current and future operational requirements can be considered.

3.11 Finally, the Department also had to deal with organizational issues that arose from the government's decision to split the Department in 2003 into two organizations (the Department of Foreign Affairs and the Department of International Trade) and to subsequently reunify it in 2006.

Exhibit 3.1 Department staff fall into three categories

	Canada-based non-rotational staff	Canada-based rotational staff	Locally engaged staff (LES)
Number of employees (as of 31 March 2006)	2,800	2,100	5,100
Location of employment	Canada	Canada and abroad	Local missions abroad
Official languages	English and/or French	English and French both required for new recruits	At least one official language usually required
Foreign language requirement	Not usually required	Required for some postings	Local language usually required
Nationality and immigration status when hired	Preference given to Canadians	Preference given to Canadians	Preference is given to Canadians, but most are foreign
Acquisition of position	Appointed to a position	Chosen from a pool of eligible staff	Hired to a position
Requirement to relocate	No expectation	Expected to relocate every two to four years	Not applicable
Eligibility for financial compensation when residing abroad	Eligible	Eligible	Not applicable
Security clearance level	Varies according to position	High level necessary	Minimal level required; higher levels difficult to obtain
Terms and conditions of employment	Collective agreement (for non-executives); *Public Service Employment Act* (PSEA) *Public Service Labour Relations Act* Terms and Conditions of Employment for Executives	Collective agreement (for non-executives); *Public Service Employment Act (PSEA)* *Public Service Labour Relations Act* Terms and Conditions of Employment for Executives	LES Employment Regulations (Canada) *Staff Engaged locally outside Canada* (TBS policy) Subject to local laws of country

Focus of the audit

3.12 This audit looked at how well the Department carries out the planning of its human resources, and then manages and supports its workforce. We took a Department-wide approach to the audit rather than focusing solely on the Department's Human Resources Branch. We focused on areas that we considered to be the most critical to achieving the Department's objectives and that presented the highest risk.

3.13 More details on the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Observations and Recommendations

Human resources planning

3.14 Human resources planning is a process that identifies current and future human resources needs for an organization to achieve its goals. Human resources planning should serve as a link between human resources management and the organization's overall strategic plan.

3.15 Integrating human resources planning with business planning is also important to the Department of Foreign Affairs and International Trade's understanding and assessment of current and future needs and challenges. The *Public Service Employment Act* and the Treasury Board Secretariat Management Accountability Framework point to the importance of integrated planning for departments and agencies.

3.16 At the Department, decisions made about human resources also have ramifications on property management, relocation costs, information technology, and security and safety measures. Proper human resources planning can provide information about the level of risk involved in a variety of strategic management approaches and present senior management with viable alternatives to mitigate identified risks.

3.17 While not unique to the Department, changing demographics also present human resources challenges. According to departmental information, 58 percent of its employees in the management category will be eligible for retirement by 2010; for all categories combined the figure is 26 percent. A recent study on human resources needs in the public service noted that "although these (public service) levels of retirement eligibility do not precisely indicate the volume of retirements to be expected in specific years, because most employees

do not leave immediately upon becoming eligible to retire, they do suggest a near-term acceleration of departures from the Public Service." The most recent Public Service survey (2005) also showed that 37 percent of Department of Foreign Affairs and International Trade respondents said they would consider leaving the Department within the next five years.

3.18 Departures now outnumber new hires (Exhibit 3.2). The number of hires is dropping, while the number of departures is increasing, making the need for strategic human resources planning, by using up-to-date workforce data, even more acute. If this trend continues, the situation will only worsen given the demographics already noted.

Exhibit 3.2 Canada-based staff departures now outnumber new hires



Source: Department of Foreign Affairs and International Trade

The Department has no strategic human resources plan

3.19 We expected the Department to have a strategic human resources plan that describes the complement and competencies of its current Canada-based and locally engaged staff, and those needed in the future. The plan should also outline departmental strategies to fill its workforce gaps in the short, medium, and long term and should be aligned with departmental objectives and priorities.

3.20 We found that the Department does not have such a plan and, as a result, does not have a complete picture of the people, competencies, and experience it will need in the future. It lacks basic information that helps to plan for and manage its workforce. Until recently, human resources planning in the Department was limited. There was no link to business planning, and it was largely not integrated with other human resources management activities.

Available human resources information was not effectively used for planning purposes and tended to focus on Canada-based staff only. As we note in later sections of this report, recruitment, promotion, and assignment processes were carried out reactively to fill immediate or urgent needs.

3.21 The Human Resources Branch acknowledged that the limited attention paid to human resources planning activities in prior years had resulted in a number of problems, including vacancies in key occupational groups (executive, foreign services, and administrative services), a reactive instead of proactive response to needs, and overuse of temporary staffing measures (known as "acting" appointments). It also acknowledged the need for a greater focus on human resources planning due to the government's human resources management modernization initiative, among other issues.

The Department is developing a strategic human resources plan

Previous Auditor General of Canada reports on government-wide recruitment

- 2000 Report of the Auditor General of Canada, December, Chapter 21, Post-Secondary Recruitment Program of the Federal Public Service
- 2003 Report of the Auditor General of Canada, 2003 Status Report, Chapter 5, Post-Secondary Recruitment Program of the Federal Public Service

3.22 We brought the lack of strategic human resources planning at the Department to Parliament's attention in previous reports on government-wide recruitment. Under the *Public Service Modernization Act*, departments are expected to carry out strategic human resources planning. Under central agency guidance, the Department began to adopt the proposed human resources planning approach in 2005 and the Human Resources Branch was mandated to develop a human resources planning framework. The approved approach is extensive and guides the Department to determine its business goals, scan its environment, conduct a gap analysis, and set human resources management priorities to help achieve its business goals. Once the planning approach is implemented, its progress needs to be measured, monitored, and reported to senior management and central agencies.

3.23 We also noted some good planning initiatives for specific groups coordinated by the Human Resources Branch. For example, in late 2005 a strategy was initiated to conduct strategic human resources planning for the Management and Consular Officer (MCO) pool. This strategy acknowledged, among other things, the importance of managers' involvement in the success of its implementation. A standing committee was formed, which developed a strategy to address recruitment, development, and retention of staff in the MCO stream. Demographics, promotions, and assignments were analyzed and projected for MCO employees. The work also identified the critical need for the development of new recruits prior to the expected mass retirements. The committee developed an action plan with cost estimates, timelines, and deliverables. On the whole, this initiative

demonstrates the fundamental components required for sound human resources strategic planning.

3.24 At the end of our examination, the Human Resources Branch was in the early stages of collecting data to prepare a strategic plan. However, it had not included the requirements for locally engaged staff in its planning process. In order to ensure that the Department has a sustainable workforce to fulfill its mandate, comprehensive human resources planning is fundamental to meet its demographic challenges and workforce gaps.

The lack of workforce data is hampering human resources planning and management

3.25 The preparation of strategic and operational plans requires reliable data on which to base analyses and projections. Our audit work raises questions about the reliability and usefulness of the Department's human resources management information data, such as acting levels and vacancies. Some managers tend not to use the departmental human resources information that is in the departmental systems, preferring to keep their own individual records. In addition, we found a number of errors in the data provided to us, and the aggregate numbers used in reporting to Parliament did not agree with the information in the departmental systems.

3.26 Although the Department has been aware of a number of the problems with its human resources data for some time, it has not succeeded in correcting many of them.

3.27 Recommendation. The Department should develop and implement a comprehensive human resources plan that clearly defines its current and future human resources needs, both for Canada-based staff and locally engaged employees.

Department's response. The Department agrees that a comprehensive human resources plan must be developed and implemented. In the last few years, significant progress has been made in establishing the capacity and systems necessary to plan in a complex and multi-dimensional environment. The development of a comprehensive Canada-based staff plan is in the final planning stages and is expected by spring 2007. Building on the Management Consular Officer model, the Department is developing plans for key professional groups in order to ensure that the Department has the right people in the right place doing the right job.

For locally engaged staff (LES), the Department will develop a framework by winter 2008 to guide missions with their LES planning, focusing on identifying key competencies required for its LES workforce. These mission-specific plans are based on local labour laws, and current and future human resources needs. There is little or no LES mobility between missions, the LES are not subject to the *Public Service Employment Act* (PSEA), and each country has its own set of terms and conditions of employment. As such, resourcing strategies and plans for the LES should be distinct from the Canada-based staff population, although intricately linked to the Department's current country strategy process. This process analyzes mission, policy, government, and other requirements and develops a mission-specific strategy ensuring that this is placed into an overall government context. These strategies then form part of the Department's overall business plan.

Workforce management

3.28 As we have noted, the Department of Foreign Affairs and International Trade faces particular human resources management challenges, especially with its demographics. This highlights the need for the Department to ensure that it is effective in filling its positions with enough qualified staff.

3.29 We expected the Department to manage its human resources to ensure it has the appropriate number of employees with the required skills and competencies at the right time and in the right place. We also expected that the roles and responsibilities regarding recruitment, promotion, and job assignments would be clearly defined and well communicated.

3.30 We examined three main activities—recruitment, promotion, and assignment of rotational staff—to determine whether the Department's human resources policies and practices are current and consistent with good human resources management practices, and if they support departmental objectives. In addition, we looked at the management of locally engaged staff working in missions abroad, and the process for compensating Canada-based staff posted to these missions.

3.31 The following sections present our findings in a variety of areas. An overall recommendation is provided at paragraph 3.64.

Relying on traditional recruitment methods might not be sustainable

3.32 We expected the Department to have a clear picture of the vacancies it is trying to fill and to have developed and implemented practices to ensure that sufficient candidates with the required skills are selected to meet workforce needs.

3.33 The Department's human resources information system showed a 35 percent vacancy rate as of 31 March 2006. During the course of our audit, the Department informed us that according to its best estimate, its vacancy rate was approximately 20 percent, although about half of those positions were inactive—that is, they were considered redundant but had not been taken off the organizational charts. We could not validate those figures and the Department could not provide an exact number of vacancies for which it was trying to recruit. The impact of this estimated vacancy rate is that there are a good number of positions that do not have an incumbent to deliver services and programs to Canadians both in Canada and abroad. We found no clear link between recruitment levels and long-range planning, demographic analysis, or vacancy-trend analysis.

3.34 In our 2000 chapter on post-secondary recruitment, we noted that the Department did not link its recruitment with **attrition rates** and retirement data. For the 2005–06 recruitment process, we found that the Department produced some analysis of its needs for foreign service officer recruitment, but was unable to show a link between its needs and the actual number of hires.

Attrition rate—The rate at which positions become vacant through means other than firing, such as resignation, retirement, and death.

3.35 Historically, the Department has filled its rotational positions by recruiting candidates at the entry level and subsequently promoting them throughout their careers. It is extremely rare for non-rotational Department and other public service employees to enter the rotational stream other than through the competitive entry-level process.

3.36 In order to meet immediate operational requirements for experienced, highly skilled officers at the more senior levels of the foreign service officer group, the Department launched a staffing exercise in December 2005. This process would have provided non-foreign service employees, both from within the Department and from other departments, with the opportunity to transfer into the foreign service group at a classification higher than entry level. This is known as lateral entry. This type of entry represented a radical shift from the traditional method of recruitment that restricted these positions to foreign service officers, and was contested before the courts by the foreign service officers' union.

3.37 The Department's decision to conduct this exercise was set aside by the Federal Court in September 2006 on the basis that the Department had not developed its own deployment policy, as required under Treasury Board policy, and had not consulted the Professional Association of Foreign Service Officers. The Department believes it has since satisfied the court's conditions and has redeployed the affected employees under provisions of the new *Public Service Employment Act*.

3.38 We also examined a representative number of entry-level competition files for the rotational foreign service and administrative services categories to assess the recruitment process in the 2005–06 fiscal year. The competitions were generic, allowing for one staffing process to fill similar positions within the Department. We reviewed the sources of recruitment, the qualification steps, the selection tools, and the documentation used for the staffing process.

3.39 Overall, our sample of entry-level competition files indicated that the recruitment process was properly established and followed in the selection of candidates, although more rigour is needed in the interview process and reference checks for the administrative rotational staff. Although management roles and responsibilities were defined and well communicated, we noted instances where they were not carried out appropriately.

The Department cannot fill its needs on a timely basis through promotions

3.40 The Department holds promotion competitions for both rotational and non-rotational Canada-based staff. While non-rotational employees are promoted to a specific position, rotational employees are promoted to a level with no predetermined job assignment. Promotions are especially important to both the Department and its rotational employees because, as previously mentioned, the Department has traditionally filled rotational positions above entry-level almost exclusively through promotions. Promotion processes intended to fill rotational assignments take the form of generic competitions.

3.41 We expected that the Department would have a suitable promotion process that would contribute to filling the workforce gaps with qualified candidates on a timely basis.

3.42 We examined a representative number of individual promotion files for both rotational and non-rotational Canada-based staff for the 2005–06 fiscal year. We examined whether appropriate tools

were used throughout the processes to assess the qualifications of candidates, such as position descriptions, competency profiles, interview guides, and reference checks. We found that the Department did, in fact, use appropriate tools, consistent with good human resource management practices. As well, we found that management roles and responsibilities were properly carried out.

3.43 We also found that the competitive process took from 1 to 22 months depending on the type of competition (single actions to fill a single position, or generic staffing actions for several positions). In one third of the files examined, the process was generic and took over six months.

3.44 In a 2006 government-wide study, the Public Service Commission estimated that the average time for promotion in the Public Service is 23 weeks. The study noted that government departments that run larger (generic) processes take longer to staff positions. We found that at the Department, such competitions require the assessment of a large number of candidates who may already be posted around the world. Other factors, such as language testing and security clearance, may also add to the length of a process.

3.45 We also found that the Department is having difficulty filling some of its workforce gaps through promotions. For example, in April 2005, the Department launched a promotion competition for executives at the EX-01 classification level. Although it had not set a specific number of positions to be filled by this process, the Department hoped that the competition would allow it to promote as many successful candidates as possible.

3.46 During this process, applicants were pre-screened, and 370 were found to meet the experience requirements. We noted that 132 passed the first qualifying step; however, in May 2006, only 39 successful candidates were promoted. Some unsuccessful candidates appealed the decision and at the end of our audit, there had been no final decision on the appeals. There has been no other promotion process launched for EX-01 positions since then.

3.47 As of 31 March 2006, 116 non-executive category employees were acting in executive positions. We found that 35 of those had not demonstrated the competencies to pass the first step of the ongoing process for promotion to the EX-01 level. These results demonstrate that the Department might not be able to rely predominantly on promotions to fill its workforce gaps at the executive level.

3.48 Several managers and employees told us that they found the various promotion processes frustrating and ineffective. Some of the factors mentioned were the length of the processes, the negative impact on morale, and the inability of candidates already in acting positions to pass the qualifying steps to be made permanent in that position and at that level.

3.49 In 2006 many collective staffing actions were completed, a number of staffing processes were under way at the time of our audit, and several others were slated for completion by the spring of 2007. These staffing actions are due in part to the fact that the Human Resources Branch confirmed a number of shortages in key areas, in particular within the foreign service and administrative services streams, but also among several other groups.

3.50 Given its demographic trends that predict increased departures, it will be important for the Department to ensure, as part of its human resources strategic planning exercise, that its recruitment and promotion strategies result in having the human resources it needs to carry out its mandate.

The assignment process does not yield the intended results

3.51 All rotational staff, including executives, foreign service officers, and administrative personnel, are placed in a pool and assigned to positions abroad or at headquarters for terms of two to four years. It is important that staff meet the requirements of the positions they are appointed to. For employees, the assignment process determines where they and their families will live for a number of years and has consequences for their career paths.

3.52 Available assignments abroad are posted once a year. Assignment decisions are to be made based on a list of key elements, including departmental need and employee preference, among others.

3.53 The section at headquarters responsible for a given mission participates in the initial pre-screening of all applicants and interviews the candidates for a particular posting. After various consultations throughout the process, a final candidate is selected by both the corporate assignment board (a committee of senior Department managers who review and approve assignments) and the head of mission.

3.54 At the Department, employees from the non-EX groups in acting positions receive acting pay, while those from the rotational EX group do not—which is the deputy minister's prerogative. Given the

rotational environment, employees assigned to positions above their job classification levels are generally assigned for the number of years of the rotation, not; on a short-term basis.

3.55 We expected that the assignment process would achieve the Department's intended results of placing the right people at the right place at the right time. We examined whether the assignment of people to rotational positions matched skills to requirements.

3.56 We observed a practice of assigning staff to rotational positions regardless of whether their level matched the job requirements, and we found a significant number of people in acting positions for periods such as a whole posting cycle.

3.57 We noted that as of 31 March 2006 for the whole Department, both at headquarters and in the missions, there were 917 assignments of Canada-based staff (128 executive and 789 non-executive) at a position level that did not match the employee's classification level. The positions of the FS, AS, and EX groups each had around 30 percent of acting appointments.

3.58 As of 31 March 2006, of the approximately 900 Canada-based staff in rotational positions abroad, more than 300 were at a level that did not match the employee's classification level. About 100 of those were in assignments at least two levels above their own. The fact that there are so many Department employees in acting positions, and often for periods of up to four years, could raise questions about whether employees are fully qualified to fill their acting roles.

3.59 We reviewed a representative sample of "acting" assignment files as of 31 March 2006, together with other assignment files. We found little or no documentation as to why the person was selected or to what extent the individual selected met the requirements of the position. We reviewed minutes of the selection board meetings and found little rationale supporting the assignment decision. In some cases, we found a statement indicating that the person was well qualified, but there was nothing on file to support this.

Foreign language requirements are not met

3.60 In countries where French or English is not the local language, foreign language skills are key to adequately representing Canada's interests.

3.61 We expected that the Department would have identified those positions that required foreign language proficiency and taken steps to ensure that incumbents met the requirements.

3.62 Recently, the Department conducted an analysis of its foreign language skills requirements for each of its missions and identified 180 positions that required a general working proficiency in a foreign language.

3.63 We found that the Department has not been able to recruit, train, and assign enough rotational staff in order to fulfill these language skills requirements. Only 16 percent of the people occupying these positions met the language requirement of their position and 33 percent of incumbents had not undergone language testing.

3.64 Recommendation. As part of its human resources plan, the Department should outline its strategies to fill current and projected gaps in its workforce, including how recruitment, promotion, assignment, and language training activities can best contribute to ensuring that it has qualified people in the right place at the right time.

Department's response. The Department agrees with the recommendation and recognizes that strategies to fill current and projected gaps in its workforce are important elements in human resources planning. Recent changes to the departmental configuration, as well as the conversion in 2005 of the Foreign Service group, have had a significant impact on data integrity. Data integrity and the management of vacant positions are key success factors in determining immediate and longer term needs. To address this, the Department has already created a unit headed by an executive to focus on human resources data integrity and anticipates that it will take up to two years to update all the systems to ensure quality data.

The Department is working with the Statistics Canada Centre for Workforce Analysis and Forecasting to modify its systems and improve its ability to address workforce gaps.

As suggested in this report, the Department agrees and will continue to use non-traditional means to staff positions, whenever appropriate. The Department agrees that foreign language training needs must be better linked to the staffing conducted by the Department and will endeavour, by winter 2008, to study foreign language training requirements and develop an action plan.

The management of locally engaged staff gets little attention

3.65 Under Treasury Board policy, the Department uses locally engaged staff when it is practical and when it is in the public interest. Due in large part to successive budget pressures over the last two decades, the proportion of staff working in Canada's missions who are

locally engaged is on the rise. As a result, among Western democracies, Canada has one of the highest ratios of locally engaged staff in its foreign missions. We expected that under these conditions, the Department would have complete and accurate human resources information and strong management support to ensure that its local workforce was optimally employed, and that managers who rotate every two to four years would be able to manage this workforce consistently.

3.66 We found that the Department does not have accurate and complete information to properly manage these employees. We noted instances of staff recorded as working at the wrong mission, of missions without complete employment histories of their staff on file, or of training that was not fully tracked. In addition, we found in some cases no record of an oath of office taken by local staff, as required by the LES Employment Regulations, or no record of their security checks.

3.67 The Locally Engaged Staff Services Bureau at headquarters in Ottawa is responsible for developing and implementing the departmental policy for the management of locally engaged staff abroad, and for providing services and support to all Canadian missions. At missions abroad, management consular officers are responsible for consular and all administrative functions, including the support to the management of human resources. The day-to-day management of these employees is carried out by mission managers who are generally rotational Canada-based staff.

3.68 We looked at how the LES Services Bureau and missions abroad carry out their responsibilities in managing the locally engaged staff. We expected that Department headquarters would provide appropriate support to mission managers. The Bureau's support and monitoring activities are particularly important because, in most missions, the manager overseeing the human resources management function is rotational and not necessarily a human resources professional aware of all the complexities of managing staff who are subject to local laws and customs.

3.69 We found that the Bureau had difficulty in carrying out all its responsibilities and has been unable in recent years to fully meet its mandate.

3.70 For instance, the Bureau is struggling to keep the LES handbooks up to date for each of Canada's missions. The LES Handbook developed for each mission is an essential document that provides specific terms and conditions of employment that are part of Canada's

contract with local staff. The handbooks not only provide key material concerning pay and benefits for the staff but also include crucial local information for newly arrived Canada-based managers. The Department considers that each handbook needs to be updated at least every four years. At the current rate of progress, missions can expect their handbook to be updated about once every 15 years.

3.71 As part of its mandate, the Bureau attempts to visit missions to conduct on-site reviews of their human resources management practices and review issues such as overpayments of salaries or benefits, errors in the classification process, or poor record keeping. We noted that in recent years, the Bureau visited only four missions per year on average.

3.72 **Recommendation.** The Department should strengthen the management of its locally engaged employees and better support mission managers in carrying out their responsibilities.

Department's response. The Department agrees that the capacity to deliver quality services to the locally engaged staff (LES) population and their management teams needs to be strengthened. In the 2007–08 fiscal year and beyond, the Department will undertake to re-examine the current business model. As part of this re-examination, the type of support that is required and what form it should take will also be examined, and the experience of other governments will be sought in order to obtain best practices used around the world.

By winter 2008, the Department will develop a strategy to review benefits provided to LES employees around the world, including the LES Employment Regulations, terms and conditions, classification, and human resources delegation authorities.

There is little flexibility to compensate and provide incentives to staff for living abroad

3.73 As previously noted, the Department is facing a rapidly changing environment that requires it to respond to the needs of Canadians in a timely manner. Its rotational staff are on the front lines of its program delivery and their personal situations are also affected by this rate of change. Many missions are in environments that compare poorly with Canada in their standard of living, security, safety, and health care. Missions abroad are rated on a hardship scale of 0 to 5. As a result of increasing difficulty with security and related issues, the number of Level 5 missions (considered dangerous or extremely difficult) has risen from 15 to 32 since 1991.

3.74 We examined whether the Department has processes in place to allow it to respond in a timely manner to the changing circumstances its employees are facing. We expected the Department and the employer (the Treasury Board) to have flexible mechanisms to enable the Department to assign qualified staff to its missions around the world.

3.75 We found that since the 1960s the Department has principally relied on Foreign Service Directives (FSDs) as an important tool to serve this purpose. The Directives address a number of issues that government departments must consider when assigning staff to missions, such as differences in living conditions, cost of living, travel home for holidays, children's schooling or day care, adequate housing, medical care, and safety and security. These issues also influence the Department's ability to assign or retain employees and deliver programs effectively at its missions.

3.76 The FSDs are deemed to form part of the collective agreements and also apply to departmental executives posted abroad. Any changes to the FSDs must be co-developed by a sub-committee of the National Joint Council (NJC), a consultative body of 18 bargaining agents, the Treasury Board Secretariat as the employer's representative, and three separate federal agencies. They are normally reviewed every three years. The Department can influence the process through submissions to the employer and through its participation in NJC working groups.

Other Auditor General of Canada reports that refer to the Foreign Service Directives

- 1987 Report of the Auditor General of Canada, Chapter 8, Department of External Affairs
- 1994 Report of the Auditor General of Canada, Chapter 22, Foreign Affairs and International Trade Canada—Financial Management and Control
- 1997 Report of the Auditor General of Canada, Chapter 9, Foreign Affairs and International Trade Canada—Financial Management and Control

3.77 The effectiveness of the Foreign Service Directives processes is a long-standing issue. As far back as 1987, our Office commented on the complexity of the Directives and questioned the procedures for determining whether they were achieving their stated intent. We reiterated our concerns in our 1994 and 1997 reports, and suggested that effecting change would require that the government fundamentally re-examine the FSD system and how it is managed. Since then, a 1995 special steering committee, the National Joint Council, the Department's employees, and the Department itself have all expressed concern about the processes for developing and applying the FSDs. However, the processes have remained essentially the same to this day.

3.78 The limitations of the FSD processes can affect the ability to deliver longer-term strategic initiatives. For example, the Government of Canada launched the high-priority Enhanced Representation Initiative (ERI) to fulfill its commitment to establishing stronger representation across the United States (U.S.). Through the ERI,

Canada now has 22 consulates and consulates-general throughout the US, in addition to the embassy.

3.79 The Department and other ERI partner departments are having difficulty convincing their staff to go to these missions in the US, and when they do go, some are unwilling to stay. In 2006 there were only 3.8 applicants for each US posting, compared with 9.3 for similar postings elsewhere and 6.6 overall. In recent years, 73 percent of employees who voluntarily terminated their postings early at their own expense were at US missions, which account for only about 15 percent of all Canada-based staff abroad. The allowances provided under the directives for living in the US are seen by rotational staff and their families as a disincentive to accepting a US posting (Exhibit 3.3).

Exhibit 3.3 Foreign Service Directives for US missions are seen as a disincentive to staff assignments

	US missions	Other missions
Housing	Employees are usually required to arrange for their own leased housing and its maintenance. FSDs provide a rental allowance but do not cover all related costs.	Generally provided in fully furnished Crown-owned or Crown-leased housing. The Crown provides maintenance and furnishings.
Education for children	Schooling is provided by local schools, as mandated by FSDs. Quality of public schooling depends on the local school district, which depends on available housing.	Schooling is paid for by FSDs and provided at private schools also attended by children of the diplomatic community.
Cost of living	According to the Department, costs are 18 percent higher than in Canada, but employees in the US are not fully compensated under FSDs to this amount.	According to the Department, the "post living allowance" FSD adequately compensates for the higher cost of living.

3.80 In March 2005 the Department requested changes to the FSDs to improve compensation and incentives to employees posted to the US. In its oversight capacity, the Treasury Board Secretariat requested a business case with evidence to substantiate the request. The Secretariat found that the business case did not meet its criteria. At the time of our audit, the Department was working with the Treasury Board Secretariat on a revised business case.

3.81 The Department recognizes that the FSD system does not provide it with adequate flexibility to respond to changing circumstances on a timely basis. The Department has recently explored the possibility of working with the Treasury Board Secretariat as the employer's representative to find alternative solutions to urgent

issues. One such issue is that few rotational employees want to go on high-risk postings, such as Canada's mission in Afghanistan. In July 2005 the Department began making a case to persuade the Treasury Board Secretariat to help put in place special measures prior to the next cyclical review of the Foreign Service Directives. Some of the measures the Department eventually proposed in June 2006 included the following:

- The deputy minister be delegated authority to provide life insurance for employees serving in Afghanistan. Frequently, private life insurance of employees is invalid in a war zone. Consultations with employees suggested that the lack of adequate insurance against hostile acts is one of the most serious barriers to accepting high-risk assignments.

Hostility bonus—A 50 percent bonus in addition to the FSD Post Differential Allowance (hardship allowance) in countries where hostilities are taking place.

- The **hostility bonus** for the most difficult postings, such as Afghanistan be raised from 50 percent of the hardship allowance to 250 percent of the hardship allowance.

- Entitlement to full FSD compensation be given to employees who spend at least four months at a high-risk mission. Full FSD compensation is normally limited to employees who spend a minimum of one year at a mission.

- A tax exemption on their earnings be given to employees while on dangerous missions, which is consistent with the tax exemptions implemented in 2004 for the Canadian Forces.

3.82 At the time of our audit, the Treasury Board Secretariat had just clarified that the deputy minister could use his delegated authority under the *Financial Administration Act* to purchase adequate life insurance policies. The other measures were still under discussion. While this effort shows that it is possible to find alternative solutions outside the triennial Foreign Service Directive review process, other outstanding issues have been in discussion for more than a year.

Barriers to spousal employment are disincentives for working abroad

3.83 Another issue of particular and long-standing concern is spousal employment. As far back as 1981, the Royal Commission on Conditions of Foreign Service reported that the effect of the foreign service lifestyle on employees and families was the second most common reason for resignations. The demanding nature of the posting cycles, family stresses, and the lack of employment opportunities for spouses were reasons clearly influencing decisions to resign.

3.84 With the increase in two-income families, the issue of spousal employment has only become more acute. Staff members posted abroad often face the difficult choice of separation from their spouse or the loss of one family income, pension benefits, and the postponement or loss of the spouse's career. While there are additional amounts included in the FSD allowances when a staff member is accompanied abroad, they are not designed to address the spousal employment issue. Spousal employment abroad may be difficult to obtain due to a number of barriers, such as language difficulties at each new post, local restrictions on work permits, and lack of recognition of professional qualifications. Following the loss of Canadian employment on departure, spouses are not eligible for employment insurance while looking for a job in the foreign country (except in the United States). The impact of these barriers can be significant for the family posted abroad, as well as for programs and service delivery at missions.

3.85 Departmental senior management recognizes this issue as a serious one. The Department has put in place some support programs and activities. It has surveyed what other countries do for their families posted abroad who face the same types of problems. Some of those countries have explored alternative solutions, such as a significant spousal allowance or reserved positions at missions for spouses.

3.86 It is important to note that the issues raised in this and the previous section of the audit may be shared by a number of other government departments and agencies who assign staff abroad.

3.87 Recommendation. The Treasury Board Secretariat, with the active participation of the Department of Foreign Affairs and International Trade and other departments and agencies, should

- lead a comprehensive review of the challenges facing the Public Service in posting employees abroad; and
- ensure that appropriate mechanisms are in place, either within or outside the Foreign Service Directive (FSD) framework, to allow departments and agencies to respond in a timely and effective manner to changing circumstances affecting the assignment of qualified staff around the world.

Treasury Board Secretariat's response. The Treasury Board Secretariat agrees. The Secretariat is committed to establishing and leading a partnership of key departments and agencies to comprehensively identify the challenges facing the Public Service in assigning staff abroad, and to developing and implementing a reasonable and effective plan of action in a time frame appropriate

to the challenges. The Secretariat will establish this partnership and commence this work by summer 2007.

Department's response. The Department agrees that a serious examination of the issues facing those being posted abroad is essential. Currently, most "FSD-related" issues are considered, but few of them are resolved through the National Joint Council (NJC). This co-development process does not easily permit priority focus on one issue, but sets all issues among the total FSD package. This negotiating process has proven to be quite cumbersome and the current FSDs have remained essentially unchanged for over 40 years, despite dramatic changes in Canadian society and changing government priorities.

This framework seriously limits the Department of Foreign Affairs and International Trade's and other departments' ability to respond to new or evolving government priorities and programs, all the while being charged with the responsibility and accountability for the program delivery. In addition, a large number of employees unrepresented by any bargaining agent in the process find themselves subject to these regulations, although they have no appeal rights within the NJC forum.

Attempts to support Canadian government employees serving in extreme high risk operations such as Afghanistan and Haiti are still being negotiated as part of the FSD process, which began in 2005.

The Department welcomes the authority and flexibility to meet our obligations through a more streamlined and responsive FSD or other mechanism, or by obtaining separate authorities for operational needs. The Department suggests that the governance process should be re-examined.

Conclusion

3.88 The Department of Foreign Affairs and International Trade does not have a comprehensive human resources plan and does not have the information it needs to identify the staffing levels, competencies, and experience it requires now and in the future.

3.89 As a result of a lack of human resources planning, management of its workforce suffers from many deficiencies that put the attainment of its objectives at risk. Recruitment and promotion processes do not ensure that the position requirements are met on a timely basis in terms of numbers of vacancies filled or skills capacity. Assignments to rotational positions result in a high number of people whose

classification levels do not match the job requirements. The Department is not paying enough attention to the management of locally engaged staff. There is little flexibility to compensate and provide incentives to staff for the cost of living and hardship while working in foreign missions.

3.90 The Department has begun to develop a planning process for its human resources that can support its long-term management needs. It has a number of good practices to build on, but a sustained effort is required to bring modern human resources planning and management into its culture. Proper human resources planning would contribute to closing the staffing gaps and responding to the Department's immediate and longer-term needs.

About the Audit

Objectives

This audit assessed whether the Department of Foreign Affairs and International Trade adequately plans its human resources and manages its workforce with respect to the recruitment, staffing, and assignment of Canada-based and locally engaged staff in order to meet departmental objectives.

Scope and approach

Our audit focused on human resources planning, key areas of the Department's workforce management (recruitment, assignment, and promotion processes, and the locally engaged staff human resources function at headquarters), as well as on the Department's efforts to modernize its human resources management.

We took a Department-wide approach to the audit rather than focusing solely on the Department's Human Resources Branch. In this audit's scope, we did not include the human resources management of Passport Canada employees and of the Canadian Foreign Service Institute, or of Canada-based staff working at missions for other government departments. Our audit also did not cover the human resources management functions of classification, training, career management, employee evaluation, or health and safety issues. We analyzed internal documentation and processes. File reviews were carried out at headquarters and at missions. Random sampling was done according to Office standards. Files reviewed at headquarters covered recruitment and promotion for several occupational groups and various elements (statement of qualifications, job description, rating guide, basic requirements, selection board composition, and so on) of the processes. We also reviewed files on acting appointments, for which a non-proportional stratified random sample was used. The population was stratified by category of classification, each of the classifications given equal treatment. We also quantified the demographic and competency shortfalls at the Department with data snapshots.

At missions, contract files as well as Canada-based staff and locally engaged staff personal and position files were reviewed. We also compared employees' foreign language competencies with position requirements.

We conducted interviews with management and employees at headquarters and in 12 missions.

Criteria

We expected

- human resources plans to be timely, complete, integrated with the Department's business plan, and responsive to the needs of the Department;
- appropriate data for human resources planning and its management to be accurate and easily accessible;
- the Department to be able to have the appropriate number of employees with the required skills and competencies at the right time and in the right place; and
- roles and responsibilities for recruitment and job assignments to be clear, defined, and well communicated.

Audit work completed

Audit work for this chapter was substantially completed on 28 November 2006.

Audit team

Assistant Auditors General: Ronnie Campbell and Richard Flageole
Principals: Marie Bergeron and Paul Morse
Director: Claude Brunette

Rob Anderson
Sylvie Deschamps
Catherine Martin
Heather Miller
Robyn Roy

For information, please contact Communications at 613-995-3708 or 1-888-761-5953 (toll-free).

Appendix List of recommendations

The following is a list of recommendations found in Chapter 3. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Human resources planning	
3.27 The Department should develop and implement a comprehensive human resources plan that clearly defines its current and future human resources needs, both for Canada-based staff and locally engaged employees. **(3.14–3.26)**	The Department agrees that a comprehensive human resources plan must be developed and implemented. In the last few years, significant progress has been made in establishing the capacity and systems necessary to plan in a complex and multi-dimensional environment. The development of a comprehensive Canada-based staff plan is in the final planning stages and is expected by spring 2007. Building on the Management Consular Officer model, the Department is developing plans for key professional groups in order to ensure that the Department has the right people in the right place doing the right job. For locally engaged staff (LES), the Department will develop a framework by winter 2008 to guide missions with their LES planning, focusing on identifying key competencies required for its LES workforce. These mission-specific plans are based on local labour laws, and current and future human resources needs. There is little or no LES mobility between missions, the LES are not subject to the Public Service Employment Act (PSEA), and each country has its own set of terms and conditions of employment. As such, resourcing strategies and plans for the LES should be distinct from the Canada-based staff population, although intricately linked to the Department's current country strategy process. This process analyzes mission, policy, government, and other requirements and develops a mission-specific strategy ensuring that this is placed into an overall government context. These strategies then form part of the Department's overall business plan.

Recommendation	Response
Workforce management	
3.64 As part of its human resources plan, the Department should outline its strategies to fill current and projected gaps in its workforce, including how recruitment, promotion, assignment, and language training activities can best contribute to ensuring that it has qualified people in the right place at the right time. **(3.28–3.63)**	The Department agrees with the recommendation and recognizes that strategies to fill current and projected gaps in its workforce are important elements in human resources planning. Recent changes to the departmental configuration, as well as the conversion in 2005 of the Foreign Service group, have had a significant impact on data integrity. Data integrity and the management of vacant positions are key success factors in determining immediate and longer term needs. To address this, the Department has already created a unit headed by an executive to focus on human resources data integrity and anticipates that it will take up to two years to update all the systems to ensure quality data. The Department is working with the Statistics Canada Centre for Workforce Planning and Forecasting to modify its systems and improve its ability to address workforce gaps. As suggested in this report, the Department agrees and will continue to use non-traditional means to staff positions, whenever appropriate. The Department agrees that foreign language training needs must be better linked to the staffing conducted by the Department and will endeavour, by winter 2008, to study foreign language training requirements and develop an action plan.
3.72 The Department should strengthen the management of its locally engaged employees and better support mission managers in carrying out their responsibilities. **(3.65–3.71)**	The Department agrees that the capacity to deliver quality services to the locally engaged staff (LES) population and their management teams needs to be strengthened. In the 2007–08 fiscal year and beyond, the Department will undertake to re-examine the current business model. As part of this re-examination, the type of support that is required and what form it should take will also be examined, and the experience of other governments will be sought in order to obtain best practices used around the world. By winter 2008, the Department will develop a strategy to review benefits provided to LES employees around the world, including the LES Employment Regulations, terms and conditions, classification, and human resources delegation authorities.

Recommendation	Response
3.87 The Treasury Board Secretariat, with the active participation of the Department of Foreign Affairs and International Trade and other departments and agencies, should • lead a comprehensive review of the challenges facing the Public Service in posting employees abroad; and • ensure that appropriate mechanisms are in place, either within or outside the Foreign Service Directive (FSD) framework, to allow departments and agencies to respond in a timely and effective manner to changing circumstances affecting the assignment of qualified staff around the world. **(3.73–3.86)**	**Treasury Board Secretariat's response.** The Treasury Board Secretariat agrees. The Secretariat is committed to establishing and leading a partnership of key departments and agencies to comprehensively identify the challenges facing the Public Service in assigning staff abroad, and to developing and implementing a reasonable and effective plan of action in a time frame appropriate to the challenges. The Secretariat will establish this partnership and commence this work by summer 2007. **The Department's response.** The Department agrees that a serious examination of the issues facing those being posted abroad is essential. Currently, most "FSD-related" issues are considered, but few of them are resolved through the National Joint Council (NJC). This co-development process does not easily permit priority focus on one issue, but sets all issues among the total FSD package. This negotiating process has proven to be quite cumbersome and the current FSDs have remained essentially unchanged for over 40 years, despite dramatic changes in Canadian society and changing government priorities. This framework seriously limits the Department of Foreign Affairs and International Trade's and other departments' ability to respond to new or evolving government priorities and programs, all the while being charged with the responsibility and accountability for the program delivery. In addition, a large number of employees unrepresented by any bargaining agent in the process find themselves subject to these regulations, although they have no appeal rights within the NJC forum. Attempts to support Canadian government employees serving in extreme high risk operations such as Afghanistan and Haiti are still being negotiated is part of the FSD process, which began in 2005. The Department welcomes the authority and flexibility to meet our obligations through a more streamlined and responsive FSD or other mechanism, or by obtaining separate authorities for operational needs. The Department suggests that the governance process should be re-examined.

Report of the Auditor General of Canada to the House of Commons—May 2007

Main Table of Contents

	A Message from the Auditor General of Canada **Main Points—Chapters 1 to 7**
Chapter 1	Use of Acquisition and Travel Cards
Chapter 2	Federal Loans and Grants for Post-Secondary Education—Human Resources and Social Development Canada and Canada Millennium Scholarship Foundation
Chapter 3	Human Resources Management—Foreign Affairs and International Trade Canada
Chapter 4	Canadian Agricultural Income Stabilization—Agriculture and Agri-Food Canada
Chapter 5	Managing the Delivery of Legal Services to Government—Department of Justice Canada
Chapter 6	Modernizing the NORAD System in Canada—National Defence
Chapter 7	Management of Forensic Laboratory Services—Royal Canadian Mounted Police

CAI
AG
A55

2007



Report of the

Auditor General of Canada

to the House of Commons

MAY

Chapter 4

Canadian Agricultural Income Stabilization—
Agriculture and Agri-Food Canada

Office of the Auditor General of Canada



2007



Report of the

Auditor General of Canada

to the House of Commons

MAY

Chapter 4

Canadian Agricultural Income Stabilization—
Agriculture and Agri-Food Canada

Office of the Auditor General of Canada

The May 2007 Report of the Auditor General of Canada comprises A Message from the Auditor General of Canada, Main Points—Chapters 1 to 7, and seven chapters. The main table of contents for the Report is found at the end of this publication.

LIBRARY
MAY 29 2007
UNIVERSITY OF TORONTO

The Report is available on our website at www.oag-bvg.gc.ca.

For copies of the Report or other Office of the Auditor General publications, contact

Office of the Auditor General of Canada
240 Sparks Street, Stop 10-1
Ottawa, Ontario
K1A 0G6

Telephone: 613-952-0213, ext. 5000, or 1-888-761-5953
Fax: 613-943-5485
Hearing impaired only TTY: 613-954-8042
Email: distribution@oag-bvg.gc.ca

Ce document est également publié en français.

© Minister of Public Works and Government Services Canada 2007
Cat. No. FA1-2007/2-4E
ISBN 978-0-662-45621-6

Chapter

4

Canadian Agricultural Income Stabilization

Agriculture and Agri-Food Canada

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Table of Contents

Main Points 1

Introduction 3

Agriculture and Agri-Food Canada's administration of farm income support programs 3
Problems in farm income support programs identified in our past audits 3
The Canadian Agricultural Income Stabilization program 4
Focus of the audit 5

Observations and Recommendations 5

Canadian Agricultural Income Stabilization program applications 5
How the Department calculates benefits is not transparent to producers 6
The Department focuses on minimizing overpayments 12
The Department needs to strengthen its focus on continuous improvement 15
Some improvements are needed in monitoring and training processing staff 16
Service time standards are not being met 18

Provisions of the federal-provincial-territorial agreements 19
The Department is not fully meeting the audit and reporting requirements of the agreements 19

Performance monitoring and reporting 21
Performance monitoring and reporting needs to be improved 21

Conflict of interest 22
The Department needs to continue its efforts to avoid conflicts of interest 22

Conclusion 25

About the Audit 27

Appendix

List of recommendations 29



Canadian Agricultural Income Stabilization

Agriculture and Agri-Food Canada

Main Points

What we examined

The Canadian Agricultural Income Stabilization (CAIS) program is a federal-provincial-territorial program whose objective is to protect agricultural producers from drops in income due to circumstances beyond their control. The program is administered by Agriculture and Agri-Food Canada for all of Canada except Alberta, Ontario, Quebec, and Prince Edward Island, where the provincial governments administer the program. We did not audit the provinces' delivery of the CAIS program.

We conducted this audit at the request of the House of Commons Standing Committee on Agriculture and Agri-Food. We examined how the Department processes applications for income support, ensures that all parties are respecting the various monitoring provisions set out in the federal-provincial-territorial agreements, and measures and reports its performance to Parliament.

Why it's important

The federal government has provided income support programs to farmers for decades. Agriculture and Agri-Food Canada receives about 55,000 applications to CAIS each year. In the 2005–06 fiscal year, the Department spent about $1.1 billion Canada-wide, making the CAIS program the Department's principal ongoing program of farm income support.

What we found

- The CAIS program is very complex, and the Department does not make it transparent enough to producers; some have complained that they do not understand how the Department calculates their benefits. For example, when the Department changes financial or other information that producers submit, it does not explain the impact on the benefit amount. Consequently, producers do not receive, in an easy to understand manner, all the information they need to decide whether to ask for a payment adjustment or appeal an unfavourable decision. Further, there are long delays before producers are told whether they will receive a benefit and in what amount.

- The Department focuses on preventing and detecting overpayments made to producers, and the onus is on producers to question incorrect figures in the Calculation of Program Benefits statement sent by the Department. Improving transparency would make program delivery more consistent with the program's objective, as set out in the *Farm Income Protection Act*—to protect the income of producers.
- Payment errors have been high, although they are beginning to decline. Staff who calculate payments work to standards that emphasize the number of applications processed and adherence to procedures more than accuracy of payments. While the Department collects data on the amounts and nature of the errors, it does not systematically use that information to improve its management of the program.
- Some employees who processed applications also worked as private consultants to help producers prepare their applications. We are concerned that such conflicts of interest could provide an unfair financial advantage to some applicants.
- Some of these problems are not new; our past audits of previous farm income support programs have found similar problems.

The Department has responded. In its response to each recommendation throughout the chapter, Agriculture and Agri-Food Canada has indicated the actions it has taken, will take, or will consider taking.

Introduction

Agriculture and Agri-Food Canada's administration of farm income support programs

4.1 Agriculture and Agri-Food Canada has administered various farm income support programs since the late 1930s. The Canadian Agricultural Income Stabilization (CAIS) program is the latest in a number of programs that Agriculture and Agri-Food Canada developed to provide income support to **agricultural producers**.

Agricultural producers—Includes those who produce

- livestock and poultry and related products (for example, eggs, milk, meat, and animal fibres) and ranch fur products (for example, mink, fox, chinchilla, and rabbit);
- crop and plant products (for example, wheat, barley, oats, canola, corn, fruit, nuts, mushrooms, wild rice, maple syrup, and herbs); and
- nursery products (for example, trees, shrubs, annual and perennial plants, cut flowers, and cultivated Christmas trees).

4.2 In 1991, the Net Income Stabilization Account (NISA) program was established, under the *Farm Income Protection Act*, to help producers stabilize their income. The program enabled producers to accumulate funds in good years and to use those funds in bad years. As a complement to NISA, the Department introduced the Agriculture Income Disaster Assistance (AIDA) program in 1998 and replaced it with the Canadian Farm Income Program (CFIP) two years later. Both AIDA and CFIP were intended to help producers who experienced sudden and severe declines in farming income for reasons beyond their control. The CAIS program was introduced in December 2003.

Problems in farm income support programs identified in our past audits

4.3 We audited farm income support programs in 1991 and 1994. In 1996, we assessed the Department's progress in implementing our recommendations. Our audits questioned whether the Department had adequately measured and reported the effectiveness of the farm safety net programs and whether it had implemented proper financial management and controls. In particular, we noted that the Department

- needed to strengthen program administration in areas such as payment accuracy verification, error correction, and on-farm audits;
- needed to define program objectives and develop performance indicators; and
- had not issued annual reports and financial statements in a timely manner.

The Canadian Agricultural Income Stabilization program

4.4 The Canadian Agricultural Income Stabilization (CAIS) program aims to help producers protect their operations from small and large drops in income due to circumstances beyond their control. Producers can apply for CAIS support if they have farmed for more than six months and have reported farming income for income tax purposes.

4.5 The Department delivers the CAIS program in all provinces and territories except Alberta, Ontario, Quebec, and Prince Edward Island, where the provincial governments deliver the program. In the 2005–06 fiscal year, the Department spent about $1.1 billion on the CAIS program Canada-wide. The federal government is responsible for 60 percent of the total amount spent on the CAIS program. The provincial and territorial governments are responsible for the remaining 40 percent. The federal government has signed bilateral implementation agreements with the provinces and territories that outline the cost-sharing and other terms and conditions for programs and activities, including the CAIS program.

4.6 Producers receive a payment from the CAIS program when the farm income from their current year is less than their average farm income from previous years.

4.7 The CAIS program is based on margins:

- The production margin is allowable income minus allowable expenses for a given year.
- The reference margin is the average production margin for three of the past five years; the years with the lowest and highest production margins are not included in the average.

4.8 Producers receive payments when their current year's production margin is less than their reference margin. The proportion of the government payment increases as a producer's loss deepens—the greater the loss, the larger the government contribution. The payment amounts that producers receive vary widely. For example, in the 2004 program year, where the Department delivered the CAIS program, it received 57,000 valid applications. Of the producers who submitted these applications

- about 25,000 received no payment,
- about 15,000 received $10,000 or less,
- about 50 received payments of $500,000 or more, and
- 12 received more than $1 million.

4.9 The Department estimates that accountants, and other third parties who charge a fee for the service, prepare 70 to 80 percent of the applications. The Department's records indicate that it received about 55,000 valid applications for the 2005 CAIS program year, compared to 57,000 and 55,000 applications for 2004 and 2003 program years, respectively. Producers can opt out of the CAIS program, but they are then ineligible to rejoin the program for two years.

Focus of the audit

4.10 In 2005, the House of Commons Standing Committee on Agriculture and Agri-Food asked the Auditor General to audit federal spending on the CAIS program.

4.11 The purpose of the audit was to assess how well the Department

- processes CAIS applications,
- meets the monitoring requirements of the federal-provincial-territorial agreements, and
- measures and reports its program performance to Parliament and other interested parties.

4.12 More details about the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Observations and Recommendations

Canadian Agricultural Income Stabilization program applications

4.13 The *Financial Administration Act* and the Treasury Board's policies govern departments' effective delivery and administration of transfer programs, such as the Canadian Agricultural Income Stabilization (CAIS) program.

4.14 We expected the Department to have a system in place to ensure that it processes claims accurately and reasonably quickly. We also expected it to have adopted a reasonable approach to verify the completeness and accuracy of source data, an approach that

- balances efficiency and effectiveness with the costs and risks to applicants and the federal government, and
- is consistent with government requirements.

How the Department calculates benefits is not transparent to producers

4.15 In their applications for income support, producers are required to submit income tax information. They are also required to submit complicated, detailed, and accurate information about farm expenses, revenues, and inventories each year.

4.16 The method of calculating CAIS program benefits is complicated. The Department provides information to producers on its CAIS program website. It also provides group information sessions to producers as well as individual sessions, during which CAIS representatives advise producers on how to complete their applications. Despite these efforts, some producers have complained that

- they do not understand how the Department calculates the benefits,
- the benefits are not predictable, and
- banks will not consider any potential payments from the CAIS program when deciding whether to lend them money.

4.17 Stakeholders told us that the CAIS program payments are neither transparent nor predictable. The application forms do not give producers an idea of the amount they will receive. Producers provide the requested information and must wait until the Department has finished processing the application before they find out whether they will receive a payment. The Department provides an online CAIS benefit calculator on its website but does not guarantee the accuracy of the results.

4.18 We expected the Department to provide producers with information that would help them to submit accurate information in their CAIS applications. To assess the Department's efforts to explain how staff members calculate payments, we reviewed the Department's external guidance materials, publications, notices, and presentations to applicants as well as the Calculation of Program Benefits statement. We also examined the Department's internal documents that are designed to guide staff members on how to communicate with producers.

4.19 Some producers find it challenging to provide all of the complex information that the Department needs to process applications. Processors sometimes change the information in producers' applications. For example, the manual requires processors to

- contact producers, for clarification, when producers use inaccurate codes to identify their commodities and/or inaccurately estimate the quantity of unsold inventory;
- change commodity prices when producers submit prices that do not match the Department's estimated market prices; and
- change the information producers submit to reconcile the current year's opening inventory with the previous year's closing inventory and to make it match the data from Production Insurance (another federal-provincial-territorial agricultural program).

4.20 We reviewed a sample of 2004 program-year applications to determine whether the Department informed producers of the changes that the processors had made to the applications. We also reviewed the Department's guidance materials, which describe procedures for contacting producers.

4.21 We found that, in some cases, the manual that is given to processors, for verifying the accuracy of the information producers submit, instructs staff to contact producers for additional information needed to process applications. However, we found that the Department's guidance materials did not instruct staff on how to let producers know

- how the revised information was used to calculate the benefits,
- what impact the changes would have on the benefits,
- what other changes they made to producers' applications, or
- when these changes occurred.

4.22 **Changes not reflected in statements.** The Calculation of Program Benefits statement lists, line-by-line, the figures that the Department used to calculate CAIS benefits, and is generally eight to ten pages long. However, it does not explain which figures the Department changed or why.

4.23 By not explaining, in the Calculation of Program Benefits statement, the changes it makes to the figures in producers' applications, the Department is missing an opportunity to build a well-informed and knowledgeable community of applicants.

4.24 **Onus on producers to question figures.** Once they receive their Calculation of Program Benefits statement, producers have 90 days to ask the Department to adjust the figures it used to process their applications or to request an appeal. Producers can also call the

Department's CAIS toll-free line to discuss the figures the Department changed and the reasons for the changes.

4.25 In our opinion, because the statement does not indicate which figures were changed, producers may not notice that changes have been made. The onus is on producers to compare the numerous figures in the final eight- to ten-page statement with the figures they submitted in their original applications.

4.26 If the Department clearly indicated the changes, explained the reasons for those changes, and explained how those changes affected the benefit amounts, the process would be more clear, transparent, and fair for the producers. It would also improve the producers' ability

- to correct figures that the Department had changed incorrectly,
- decide whether to ask the Department to adjust the figures used to calculate the benefit,
- appeal the Department's decision, and
- provide more accurate information on future CAIS applications.

4.27 **Transparency needs to improve.** During our review of a sample of the 2004 program-year applications, we found one payment made to a producer that increased by more than $90,000 due to a change in processing procedures. This change occurred after almost 20 percent of the applications for the 2004 program year had already been processed. The Department told us that it did not specifically inform producers, whose applications had already been processed of this change, nor did it inform them of the effect it may have had on their program benefits. However, the Department did tell us that it would investigate this situation to determine if proper processes were followed and that it would address any issues it identifies. Nevertheless, we are concerned that these producers may not have known of the changed procedures and, therefore, would not have had appropriate information to decide whether to request an adjustment or launch an appeal.

4.28 We also noted that in its guidance documents for producers the Department does not mention that it will accept re-assessments by the Canada Revenue Agency. If these re-assessments affect a producer's CAIS reference margin, the Department will accept the new information for up to three years after the end of the program year affected by the adjustment. The Department said it would mention this practice in the next update of the CAIS handbook for producers.

4.29 The Department plans to improve the CAIS application forms and tools. By the time this report is tabled, it intends to simplify the

application form for the 2006 CAIS program year, by reducing the amount of information required, and to provide a web-based electronic CAIS application tool and online access to CAIS account information for individual producers.

4.30 As we have already noted, the CAIS program is complicated. The producers are responsible for providing accurate information in their CAIS applications; the onus is also on the producers to question figures and identify incorrect payments. Expanding the information in the final Calculation of Program Benefits statements would improve producers' ability to detect incorrect figures and decide whether to ask the Department to adjust the calculations or to appeal the Department's decision. Expanding the information would also be more consistent with the Department's objective of client service excellence and with the primary objective of the CAIS program, as set out in the *Farm Income Protection Act*, which is to protect producers' incomes.

4.31 Recommendation. Agriculture and Agri-Food Canada should improve the transparency of the final statement that it sends to producers about their farm income support program benefits. The Department should clearly and fully explain how it calculates benefits, including what information it changes and why it makes the changes.

Agriculture and Agri-Food Canada's response. The Department agrees with the recommendation and has already taken steps to improve the transparency of the information it provides to producers. More specifically, it intends to add explanations of benefit calculations and adjustments and what to do if producers have questions or disagree with the Department's decisions to the Calculation of Program Benefits statements for the 2007 year. Implementing this recommendation will also add to improvements that the Department has already made to its communications with producers as well as to changes to make the program simpler and more accessible, such as making program parameter changes, harmonizing its forms with the Canada Revenue Agency, reducing its supplementary form, and offering on-line My Account and calculator features.

4.32 Controls to ensure accurate payments. We expected the Department to have implemented controls to ensure the accuracy of CAIS payments, and we reviewed the controls.

4.33 The Farm Income Programs Directorate is responsible for processing CAIS applications. It is also initially responsible for approving payments. The Financial Operations Division

independently reviews the Directorate's recommended payments. If the payments are accurate, the Division approves them. This review is the last step taken to verify that payments are accurate, before the government sends cheques and the Calculation of Program Benefits statements to producers.

4.34 The Department uses a risk-based verification strategy to process CAIS applications. Based on the risk assessment results, the Farm Income Programs Directorate processes about two thirds of the applications manually. It processes the rest electronically, with no human intervention after the initial data assessment stage. After payments have been made, the Financial Operations Division also reviews samples of payments to estimate **absolute errors**.

Absolute errors—The total dollar value of overpayment errors added to the total dollar value of underpayment errors.

4.35 **Payment errors declining.** The Department's goal is to ensure that the total estimated absolute errors to producers amounts to three percent. For the 2003 and 2004 program years, this would have represented about $20 million per year.

4.36 However, it has so far been unable to meet this target:

- For the 2003 program year, the Financial Operations Division estimated that absolute errors in payments to producers totalled $70 million, or 10.2 percent.
- For the 2004 program year, the Division estimated that absolute errors in payments to producers totalled $43 million, or 6.5 percent.

4.37 When we completed our audit, the Division's preliminary calculations for the 2005 program year indicated that estimated absolute errors were lower than in previous years and were beginning to approach the internal target of three percent.

4.38 **Pre-payment reviews.** The Financial Operations Division reviews all applications for payments of more than a specified amount before approving them. It then returns applications with payment errors to the Directorate, so the errors can be corrected.

4.39 All payments that exceed the specified amount must be included in the Financial Operations Division's pre-payment reviews. The number of pre-payment reviews that the Division does depends on how much confidence it has in the accuracy of the Farm Income Programs Directorate's application processing. By the time we completed our audit, the Division's records showed that it had conducted pre-payment reviews of about 12,000, or more than 50 percent, of the 2005 program-year applications that resulted in

payments to producers. It returned just over 4,000, or about 30 percent, of the applications it reviewed to the Directorate for correction. These applications represented a pre-payment error of 7.2 percent, or pre-payment errors totalling about $33 million.

4.40 **Post-payment reviews.** To assess the Department's overall processes and estimate errors in payments, the Financial Operations Division also reviews samples of payments after the cheques and Calculation of Program Benefits statements have been sent to producers. From these reviews, the Division estimates that 65 percent of the dollar value of errors in payments made to producers is due to overpayments, and 35 percent is due to underpayments. For the 2004 program year, this would have resulted in estimated overpayments of about $28 million and estimated underpayments of about $15 million.

4.41 The Financial Operations Division also uses information from the post-payment reviews to determine the specified amount for the pre-payment reviews. To reduce the errors in payments, the Division lowered the specified amount for its reviews each CAIS program year. Because more payments are now subject to review, the Division has had to increase its staff—from 36 in 2005 to 42 in 2006.

4.42 The Financial Operations Division's role is to assess whether the Farm Income Programs Directorate has adequate procedures and whether those procedures are working well. The Division's workload is directly dependent on how accurately the Directorate calculates program payments. The Division is detecting a large number of errors, representing a high dollar value, after applications have been processed by the Directorate. In our opinion, it would be more efficient for the Directorate to improve its procedures to prevent errors in processing, rather than relying on the Division to detect them during their reviews at the end of the process.

4.43 As mentioned earlier, the Financial Operations Division uses information it gathers from the post-payment reviews to estimate the absolute errors in payments to producers. We found that the Division uses a reasonable methodology for estimating errors. However, it does not have the statistical support to determine the accuracy of the estimate.

4.44 **Recommendation.** Agriculture and Agri-Food Canada should use a statistically valid methodology to estimate errors in farm income support program payments.

Agriculture and Agri-Food Canada's response. The Department agrees with the recommendation and is investigating the cost and

feasibility of implementing additional accuracy determination methodologies to supplement approaches, which it will implement if they are found to be cost-effective and feasible. Added to the significant progress the Department has already made to reduce errors, implementing this recommendation could further enhance its current approach to internal reviews and verification.

4.45 Dollar amounts of errors not publicly reported. The Department's target for errors in payments to producers is three percent. The Department does not report this target, or how well it meets it, to Parliament, stakeholders, or other interested parties, even though this information would be helpful in assessing the Department's performance.

4.46 Recommendation. Agriculture and Agri-Food Canada should establish and publicize a target for the accuracy of payments for its farm income support programs, and should report to Parliament, and other interested parties, how well it meets this target.

Agriculture and Agri-Food Canada's response. The Department agrees with establishing a target for the accuracy of payments and, as noted, has in fact established an internal target. The Department will also take into consideration the recommendation to report to Parliament, and other interested parties, on its achievements in meeting payment accuracy targets.

The Department focuses on minimizing overpayments

4.47 The primary objective of the CAIS program is to help producers protect their farm income from risks, such as adverse weather, diseases, and low market prices. It is a complicated program that requires producers to provide accurate and detailed information in their applications about expenses, revenues, and inventories. For example, when completing their applications, producers have to select the correct codes from a list of more than 1,500 different codes.

4.48 Because this complexity can lead to errors in the information, we expected the Department to have processes to equitably manage the risk of underpayments and overpayments to producers. The Department's approach for two previous farm income support programs, the Agriculture Income Disaster Assistance (AIDA) program and the Canadian Farm Income Program (CFIP), focused on both overpayments and underpayments, with full verification and review of all payments. Therefore, we assessed how the Department

processes applications and ensures that applicants receive the benefits they are eligible for.

4.49 CAIS payment errors can also affect payments from other programs, because the Department sometimes uses producers' CAIS data to calculate their benefits for other programs.

4.50 In March 2006, officials told the Department's senior management that one of the important elements of the Department's approach to the CAIS program is the "focus on overpayment risk." The Department told us that it detects and corrects a large number of errors before payments are sent to producers and that its approach reflects producers' interests and the overall integrity of the CAIS program.

4.51 The Department also told us that it takes a balanced approach to overpayments and underpayments. Nevertheless, we found a number of instances where the Department's processes and controls place more focus on identifying and correcting overpayments compared to underpayments.

4.52 We found that one of the principal ways the Department focuses on overpayments is through the risk assessment tests. The Farm Income Programs Directorate reviews applications in detail when the major risk assessment tests indicate a higher than expected payment and, therefore, a risk of overpayment to the producer. However, the risk of an underpayment to the producer does not trigger a similarly detailed review. The Directorate then sends the payment files to the Financial Operations Division for independent review before the cheques are sent to producers.

4.53 The Department does not dispute the fact that the Farm Income Programs Directorate's major risk assessment tests focus on the overpayment risk. Nor does it dispute the fact that the Financial Operations Division's reviews represent the last step in the process to verify that payments are accurate.

4.54 However, according to its pre-payment review criteria, the Financial Operations Division does not review applications that have payments that are below the specified amount. It also does not review "zero payments," which represent about 45 percent of all applications. Consequently, about 70 percent of the applications filed each program year are not reviewed by the Division before the Department sends the Calculation of Program Benefits statements to producers. If a payment is an underpayment and is below the specified amount, the application would not be reviewed by the Division before the producer receives the Calculation of Program Benefits statement. In our opinion, the

payment of any amount is important to producers. In addition to paying a fee for participating in the CAIS program, 70 to 80 percent of producers also pay fees to have their applications prepared.

4.55 We are concerned that the Department's pre-payment processes do not control the risk to producers of underpayments for files below the specified amount that are not reviewed by the Financial Operations Division. The Department puts the onus on producers to question the figures and identify incorrect payments. However, the Department does not believe that what we consider to be a focus on overpayments has a significant impact on producers.

4.56 The Department estimates the absolute errors in payments to producers, which include both underpayments and overpayments. However, we believe two additional steps need to be taken to confirm this estimate. As we recommend earlier, the Department should use a statistically valid methodology to estimate errors in farm income support payments.

4.57 The Department also needs to include zero payment applications in its samples for post-payment reviews. By their nature, zero payment applications only have a risk of underpayment, not overpayment. About 45 percent of all applications result in zero payments. If these zero payments are excluded from the post-payment samples to detect errors, there is a risk that the Department's estimate that only 35 percent of the errors are underpayments is inaccurate.

4.58 Recommendation. When estimating errors in payments from farm income support programs, Agriculture and Agri-Food Canada should include zero payment applications in its post-payment samples.

Agriculture and Agri-Food Canada's response. The Department agrees with the recommendation and is investigating the cost and feasibility of implementing additional accuracy determination methodologies, including sampling zero payment files, which it will implement if they are found to be feasible and cost-effective.

4.59 Another example of the Department's focus on overpayments is the processing instructions for cases where producers provide a plausible reason for the Department to accept new information after the 90-day deadline for requesting changes or launching appeals. These instructions direct processors to "determine the correct values, update the . . . information, and reprocess . . . only where the payment will decrease." There is no equivalent instruction for underpayments. However, the Department informs us that the federal-provincial-territorial agreements limit adjustments that affect payments to 90

days from the date of the Calculation of Program Benefits statement. The federal-provincial-territorial agreements also require the Department to recover overpayments whenever they are discovered.

4.60 Recommendation. When processing applications for benefits, under farm income support programs, the emphasis that Agriculture and Agri-Food Canada places on efforts to prevent, detect, and correct both under-payments and over-payments to producers should be proportional to the relative risks of underpayments compared with overpayments—as determined through the Department's revised post-payment sampling results—as recommended elsewhere in this chapter.

Agriculture and Agri-Food Canada's response. The Department agrees with the recommendation. It will undertake, as indicated in its responses to other recommendations elsewhere in the chapter, to adjust its review and verification processes; to ensure a balance between overpayments and underpayments; and to ensure that, by the time payments reach producers, both have been identified and corrected to the same degree. Efforts in this regard will be proportional to the relative risks of underpayments compared with overpayments and will reflect both producers' interests and the overall integrity of the program.

The Department needs to strengthen its focus on continuous improvement

4.61 We expected the Department to have developed and implemented procedures to monitor and improve the delivery of the CAIS program. To determine whether it maximizes opportunities to improve processing accuracy, we reviewed the way the Department analyzes and uses data.

4.62 Data not used well. We found that a number of groups in the Department collect a lot of useful information, but the Farm Income Programs Directorate is not systematically using that information to improve processing accuracy.

4.63 The Directorate's system for processing applications includes three quality assurance reviews, at different stages, for which reports are sent to the Directorate's processing managers. These reports focus on the number of applications containing errors that were returned for processors to correct and the number of applications that are still outstanding. However, we found that the Directorate did not analyze the data to identify trends or target specific areas for monitoring.

4.64 As we indicated earlier, by the time we completed our audit, the Financial Operations Division had reviewed more than 50 percent of the 2005 payment applications and had returned about 30 percent to the Farm Income Programs Directorate for correction. Through these reviews, the Division gathers important data about processing errors as well as information about the errors producers make in their applications. However, the Division and the Directorate sometimes disagree about what constitutes an error and which errors require correction. We also found that the Directorate does not systematically use or analyze the Division's data to improve the accuracy of its application processing.

4.65 Furthermore, the Farm Income Programs Directorate's audit services unit conducts on-farm audits of producers' records to verify the accuracy of payments made to producers. At the time of our audit, the unit was completing the on-farm audits for the 2003 program year and was beginning the audits for the 2004 and 2005 program years.

4.66 We found some inaccuracies in the database the Department uses to record the results of the on-farm audits. Nevertheless, the Department's analyses of the information in the database indicate that

- about 90 percent of the audits of 2003 program-year payments resulted in changes to the original payment amount, and
- about 30 percent of the audits changed the payments by $5,000 or more.

4.67 We also found that the auditors do not analyze the causes of the errors—whether the Department made errors processing the application or whether producers submitted inaccurate information. In our opinion, these audits could provide valuable information about the accuracy of the data submitted by producers and about the accuracy and reliability of the Department's processing procedures.

4.68 Despite the numerous sources of relevant information, the Directorate does not systematically gather or analyze the data. It is therefore missing an opportunity to continuously improve the way it processes CAIS applications.

Some improvements are needed in monitoring and training processing staff

4.69 Although it has automated some steps, the Farm Income Programs Directorate still relies heavily on its staff to manually process the applications that fail the major risk assessment tests. Therefore, the employees that process applications need appropriate guidance and

training to do their work accurately. We reviewed the Department's training materials and the way it monitors its processors' performance.

4.70 We found that the Department appoints senior processors as resource people to offer guidance to other processors. However, we also found that processors do not have to have successfully completed training before they begin processing applications, and the Department has not established a grading system for the training quizzes that are supposed to test how well employees understand the material. Some employees do not take the quizzes, some do poorly on the quizzes, and some are absent for significant portions of the courses.

4.71 Processing managers use quality assurance reports to monitor processors' performance and to determine whether they follow procedures. The processing managers ask the quality assurance team to increase the monitoring if processors make too many procedural errors.

4.72 The quality assurance reviews could also be used to provide more prompt and useful feedback on individual processors' errors, so managers can better decide what additional training employees need.

4.73 In addition, while we found that processors' individual performance objectives include targets for production, timeliness, and adherence to procedures, there are no targets for payment accuracy. By the time we completed our audit, from its pre-payment reviews, the Financial Operations Division had returned about 30 percent of the applications to the Farm Income Programs Directorate for correction. These applications represented a pre-payment error of 7.2 percent, or pre-payment errors totalling about $33 million.

4.74 Recommendation. Agriculture and Agri-Food Canada should strengthen its focus on continuous improvement in the administration of its farm income support programs by systematically

- collecting relevant information about the nature, extent, and timing of errors;
- analyzing the information; and
- continually applying the results of the analyses to improve all phases of application processing.

Agriculture and Agri-Food Canada's response. The Department agrees with the recommendation to strengthen its focus on continuous improvement. Specifically, the Department agrees that using all the information it has available more systematically will ensure that it builds on past improvements, while fostering a stronger continuous improvement culture.

Service time standards are not being met

4.75 The Department aims to deliver efficient, effective, client-focused programs. However, we found that one of the common complaints from producers is that CAIS payments are not timely.

4.76 We reviewed a sample of the 2004 program applications and calculated how long it took the Department to process them—from the date the Department received an eligible application to the date it sent the Calculation of Program Benefits statement to producers. We found that, on average, the Department took 120 days to process the applications.

4.77 During the first two years of the CAIS program, the Department measured its service time standard from the date the application was entered in the database to the date the application for payment was approved. The Department aimed to process applications received within 60 days during non-peak times and within 75 days during peak periods. The Department's records indicate that it met its service standard 65 percent of the time in 2003 but only 26 percent of the time in 2004.

4.78 For the 2005 program year, the Department began to deduct the time that processors spend waiting for producers to provide additional data from the time taken to process an application. As a result, the Department expects its performance against its service standard to improve. During our review of a sample of the 2004 program applications, we found that, most of the time, processors requested additional information by telephone and usually received it within 24 hours.

4.79 The Department also increased its service time standard to 90 days during peak periods. In addition, it now counts the days from the date it receives an eligible application to the date it approves a claim for payment (and considers processing complete). At the end of our audit, the Department's records indicated that it met its service time standard for the 2005 program-year applications, about 38 percent of the time.

4.80 We agree that using the date the Department receives the application from a producer instead of the date the information is loaded into its database is an appropriate way to measure how long it takes to process applications. However, a more client-focused approach is to use the date the Department sends Calculation of Program Benefit statements to producers—when it informs them of the

outcome of their application—instead of the date an application is approved for payment.

4.81 The Department instructs processors to keep diligent records of all contact with producers in the electronic database, including the dates they requested and received additional information. We agree that accurately measuring how long it takes to process applications depends on processors recording accurate and complete information. We also agree with the Department's opinion that there may be a trade-off between accuracy and timeliness. While taking more time to review applications can reduce errors, it can also increase the time producers have to wait for their benefits.

4.82 Recommendation. Agriculture and Agri-Food Canada should set realistic service time standards for processing farm income support program applications and should accurately measure its performance against those standards.

Agriculture and Agri-Food Canada's response. The Department agrees with the recommendation and will continue working with provincial partners to establish national service standards for the CAIS program to improve the predictability of CAIS processing.

Provisions of the federal-provincial-territorial agreements

The Department is not fully meeting the audit and reporting requirements of the agreements

4.83 The federal-provincial-territorial agreements include important monitoring provisions that enable each of the parties to confirm that the Canadian Agricultural Income Stabilization (CAIS) program is being administered according to the agreements' terms and conditions. Alberta, Ontario, Quebec, and Prince Edward Island deliver the CAIS program to their own provinces; the federal government delivers it to the rest of Canada.

4.84 Given that the federal government pays 60 percent of the CAIS program-delivery costs for the provinces and territories and that the provinces and territories pay the other 40 percent, both levels of government need to know whether funds are being properly managed and whether the program is being delivered according to the federal-provincial-territorial agreements.

4.85 We expected Agriculture and Agri-Food Canada to have mechanisms in place to ensure that all parties are meeting the monitoring provisions—the auditing and reporting requirements—of the agreements. We assessed how well the Department ensures compliance with the audit and reporting provisions in the CAIS

agreements. We did not audit the provinces' delivery of the CAIS program.

4.86 The agreements that govern the CAIS program include various audit provisions. One audit requirement in the agreements addresses financial reconciliations and states that all parties must

- reconcile their claims for program payments and administrative expenses with the amounts reported in their audited financial statements,
- conduct audits of those reconciliations, and
- provide the audits to those who made the payments within nine months of the end of the fiscal year.

4.87 We found that the Department had not prepared its reconciliation audits by the deadlines, but had completed them by the time we completed our audit. We also found that the Department did not obtain any of the audited reconciliations of the provincial agencies' claims within the deadlines. However, by the time we completed our audit, all but two of the four audits were complete. The Department took appropriate action to obtain the required information from the other two provincial agencies, eventually withholding federal funding from one of them.

4.88 Another audit provision in the agreements requires the Department to periodically conduct compliance audits, at its discretion, to determine whether the federal and provincial agencies administer the CAIS program according to the agreements' terms and conditions. Compliance audits also enable the Department to assess national consistency in program delivery. We found that the Department had not completed any compliance audits, although it was planning one for the 2004 program year that would include all provincial agencies as well as the Department.

4.89 The agreements also require each administration to prepare an annual report on their CAIS operations, revenues, and expenditures as soon as possible following the end of each fiscal year. We found that neither the Department nor the provincial administrations had completed any of the required reports.

4.90 Recommendation. Agriculture and Agri-Food Canada should ensure that it meets the audit and reporting requirements of the federal-provincial-territorial agreements.

Agriculture and Agri-Food Canada's response. The Department agrees with the need to meet the audit and reporting requirements

of the federal-provincial-territorial agreements. In this regard, it has already been working with provinces on finalizing audit parameters and carrying out audits and will accelerate this work to ensure that audits are conducted in a more timely manner.

Performance monitoring and reporting

Performance monitoring and reporting needs to be improved

4.91 According to the Treasury Board's policies and guidelines (the Policy on Transfer Payments and its guide, *Preparing and Using Results-based Management and Accountability Frameworks*), departments need to establish mechanisms that enable managers to measure and report program results and to assess program effectiveness. We expected Agriculture and Agri-Food Canada to have developed a framework for measuring the effectiveness of the CAIS program and for reporting to Parliament and other interested parties.

A **results-based management and accountability framework** is used to identify a program's performance measures and develop strategies to report on outcomes.

4.92 We found that the Department has developed a **results-based management and accountability framework** that contains performance indicators for all its Business Risk Management programs—including the CAIS program—and established high-level expected results for those programs. However, for the CAIS program, it has not established specific and measurable targets to assess program performance or set deadlines to develop these targets. In our view, the lack of specific and measurable targets reduces management's ability to assess whether the CAIS program is achieving its objectives and to report to Parliament on the performance of the CAIS program.

4.93 Furthermore, while it has established performance indicators in the Results-Based Management and Accountability Framework, the Department is not preparing timely, comprehensive reports on all of them. For example, the data the Department routinely gathers focuses on operational information, such as the number of CAIS applications it received and processed and the amounts it paid producers. When we completed our audit, the Department had only prepared a comprehensive report for the 2003 CAIS program year.

4.94 While it continually updates this report as new information becomes available, the Department told us that it needs to wait until it has processed all 2004 CAIS applications, before it can prepare a similar report and measure its performance against the CAIS program's performance indicators for that year.

4.95 By the end of October 2006, the Department was still processing 830, or 1.5 percent, of the 57,000 applications it had received for the 2004 program year. In our view, monitoring program performance

against the key indicators need not wait until the Department has processed all the applications. Even if all of the necessary information is not yet available, the Department can prepare comprehensive reports for each CAIS program year, which would be useful for monitoring and improving the delivery of the CAIS program and for reporting CAIS program results to Parliament.

4.96 Recommendation. Agriculture and Agri-Food Canada should

- establish specific and measurable targets for all of the performance indicators in its Results-Based Management and Accountability Framework; and
- produce timely reports to Parliament on the performance of farm income support programs, measured against those targets.

Agriculture and Agri-Food Canada's response. The Department agrees with this recommendation. It will, in conjunction with its provincial counterparts, develop targets for each of the measures in the Results-Based Management and Accountability Framework and report progress and achievements, on these targets, in the annual departmental performance report to Parliament. This task will be completed by December 2007 and will include, for example, targets related to producer participation in CAIS and to timeliness of payments.

Conflict of interest

The Department needs to continue its efforts to avoid conflicts of interest

4.97 We reviewed potential conflict of interest cases, in which employees who process applications for farm income support payments help producers prepare their applications. In our opinion, processors who also work as private consultants to help prepare Canadian Agricultural Income Stabilization (CAIS) applications contravene conflict of interest provisions in the *Values and Ethics Code for the Public Service*. These employees also risk contravening provisions that deal with providing preferential treatment and benefiting from information that is not available to the public. When we brought these cases to Agriculture and Agri-Food Canada's attention, it began investigating them.

4.98 The Department assesses CAIS applications against risk assessment tests. Applications that pass the tests are deemed low risk and are less likely to be reviewed by the Farm Income Programs Directorate. Individuals with detailed knowledge of these tests could use that knowledge to manipulate the data in producers' CAIS applications and to trigger payments.

4.99 We are not aware of any cases where such manipulation actually occurred. However, it may occur if CAIS employees help to prepare CAIS applications (as private consultants).

4.100 The Department told us that only employees who develop and implement these tests have full access to the calculations and details on how the tests work. The Department also told us that the tests, and the way processors use them to assess applications, are so complex that they would not be useful to employees.

4.101 We found that the processors' manuals contain specific explanations for why data from producers fail the tests. The Department requires processors to understand how the test result was calculated and to explain any possible anomalies. If they conclude that the level of risk associated with the application is acceptable, they can send the application "straight to payment."

4.102 Department officials also told us that some CAIS processors prepare CAIS application forms for their own farms. Processors must indicate that they are Department employees to ensure that their applications, and those of their immediate colleagues, are processed by other teams.

4.103 The Department sends annual notices to employees reminding them of their responsibilities under the *Values and Ethics Code for the Public Service*. After we notified the Department of the potential conflict of interest cases, it sent an additional reminder to 18 of the almost 400 employees who process applications for farm income programs.

4.104 We reviewed the confidential reports that several employees filed as a result of this reminder as well as their past reports and reports previously filed by other employees. Some CAIS employees said they were providing private consulting services on preparing CAIS applications, and some said they were charging fees for their services.

4.105 Some of the employees had disclosed such activities to management before we raised the issues with the Department—of those, some had done so for a number of years. However, the Department told us that it did not have records of follow-up action for all of the confidential reports that had been filed. After we raised our concerns about potential conflicts of interest, the Department conducted investigations and told five employees to stop preparing CAIS applications for their clients.

4.106 We also found that the Department had not always properly protected documents containing information about the risk assessment tests, as required by the Government Security Policy. However, as the Department does currently identify recent versions of these documents, if any of the almost 400 employees of the farm income programs processing unit were to use this information for private purposes, they would contravene the Policy and the *Values and Ethics Code for the Public Service*.

4.107 Finally, we found that although applicants may voluntarily disclose the name of the individual or company that prepared the application, they are not required to do so.

4.108 The Department informed us that it was strengthening its values and ethics regime, before we notified them of potential conflicts of interest. Furthermore, in December 2006, it reminded all employees of their obligations, under the *Values and Ethics Code for the Public Service*. It specifically told employees to file a report if they

- owned a farm and were applying for income assistance from the Department, or
- were considering helping producers apply to the Department's grant and contribution or farm income support programs.

4.109 The Department also told us that it is implementing a process to address risks associated with employees preparing applications for their own farms, which would include on-farm audits if necessary.

4.110 Recommendation. Agriculture and Agri-Food Canada should strengthen measures to reduce the risks of potential conflicts of interest. At a minimum, the Department should strengthen its values and ethics program—making it clear to employees that they cannot prepare applications for others for a fee—and establish processes to

- identify processors who also prepare applications for farm income support programs;
- address risks associated with employees preparing applications for their own farms or their families' farms, including performing on-farm audits if necessary; and
- ensure that all applications prepared by farm income support program employees are approved manually rather than electronically.

Agriculture and Agri-Food Canada's response. The Department agrees. It has been strengthening, and will continue to strengthen, its

values and ethics program, by continuing to advise all new staff of their obligations, under the *Values and Ethics Code for Public Servants*, and reminding them of their obligations on an annual basis. Recently, the Department strengthened its conflict of interest processes to proactively involve management in the resolution of potential or actual conflicts of interest. The Department has also recently instituted a formal training program and will be delivering this program across the country. Additionally, it has instituted a 1-800 hotline number where employees and managers can get immediate assistance.

CAIS processors are required to self identify if they are completing a CAIS application for themselves, for a family member, or for friends. They are also asked to identify that application, and these applications are then processed by someone other than themselves in a separate team designated for that function, effectively distancing the employee from that application. Finally, the Department has informed employees through a Deputy Minister letter that they cannot prepare CAIS applications for a fee. This will be repeated on a yearly basis.

Conclusion

4.111 Where Agriculture and Agri-Food Canada delivers the Canadian Agricultural Income Stabilization (CAIS) program, the Department does not have a system in place to assure itself that applications are processed accurately. The Department focuses on detecting and correcting overpayment errors; its method of estimating errors in payments lacks statistical support, and it omits the sampling of zero payment applications. Consequently, there is a risk that the impact of the focus on overpayment is greater than that estimated by the Department. However, the Department does not believe that there is a significant impact on producers in what we consider to be a focus on overpayments. The Department has improved its accuracy of processing 2005 applications that result in a payment to producer; however, while close to reaching its target for payment accuracy, the Department has not yet met it.

4.112 Agriculture and Agri-Food Canada needs to improve the efficiency of processing applications and the effectiveness of managing the risks to applicants and to the federal government. Specifically, we found the following:

- The way the Department calculates benefits is complex and not transparent. The Department does not indicate or explain to producers how and why it changes the figures they originally

submitted or how it uses the altered figures to calculate the producers' final CAIS benefits.

- The Department needs to improve its systematic use of available information to strengthen its continuous improvement efforts.
- The Department focuses on detecting and correcting payment errors at the end of the process instead of focusing on preventing them in the first place.
- There are long delays before producers are told whether they will receive a benefit. On average, the Department took 120 days to process 2004 program-year applications.

4.113 Given the amount of complex information producers are required to provide in their CAIS applications and the volume of applications it receives, the Department has implemented a reasonable approach to verify the completeness and accuracy of source data.

4.114 The Department is not meeting its service time standards for processing applications and, therefore, is not processing applications within a reasonable period of time.

4.115 The Department has not established an external service standard for payment accuracy, nor has it established specific and measurable targets for all of the performance indicators in its Results-Based Management and Accountability Framework. Establishing such targets would improve the Department's ability to assess the CAIS program, to determine whether it is achieving its intended objectives, and to report on its performance to Parliament. Furthermore, ongoing monitoring of the CAIS program's performance against the key indicators would be useful for improving the delivery of the program and reporting its results to Parliament.

4.116 With the exception of the reporting requirements, the Department substantively ensured that the monitoring requirements of the federal-provincial-territorial agreements were met. We did not audit the delivery of the CAIS program by the provincial administrations.

About the Audit

Objectives

Our first objective was to determine whether Agriculture and Agri-Food Canada has reasonable approaches to verify the completeness and accuracy of the source data for Canadian Agricultural Income Stabilization (CAIS) applications and to ensure that claims are processed accurately and reasonably quickly.

Our second objective was to determine whether the Department has developed a performance measurement framework and is using it to

- assess how well the CAIS program meets its objectives;
- monitor and improve CAIS program delivery; and
- report to Parliament and other interested parties.

Our third objective was to determine whether the Department ensures that parties to the federal-provincial-territorial agreements that govern the delivery of CAIS are meeting monitoring requirements.

Scope and approach

The CAIS program provides income support to producers. It is administered by the Department for all provinces and territories except Alberta, Ontario, Quebec, and Prince Edward Island. Our audit focused on the processes and procedures that the Department uses to manage and deliver the CAIS program.

Specifically, we examined how the Department

- processes applications for income support,
- measures and reports on its performance to Parliament, and
- meets the monitoring requirements of the federal-provincial-territorial agreements.

We did not audit the provinces' delivery of the CAIS program.

The stakeholders that we interviewed included officials from

- several non-governmental organizations that represent more than 200,000 producers,
- the major banks, and
- provincial governments where the CAIS program is and is not delivered by the Department.

We interviewed officials and reviewed documents in Winnipeg (where the CAIS program is administered) and at the Department's national headquarters in Ottawa. We also reviewed files from a representative sample of 137 CAIS applications from the 2004 program year. The eligible 56,515 applications processed on or before 12 April 2006 were divided into low, medium, and high dollar amounts and zero-payment applications. Sample sizes from each of the four groups were selected, so confidence intervals for deviation rates would be less than 10 percent at a 90-percent confidence level. All estimates reported in the chapter have been weighted to accurately reflect the population.

Criteria

We expected the Department to have

- established policies and procedures to ensure efficient and effective delivery and administration of the CAIS program,
- developed a results-based management and accountability framework that provides for appropriate measurement and reporting of results to the Department's managers as well as to Parliament and other interested parties,
- developed appropriate evaluation criteria to assess the effectiveness of the CAIS program,
- developed and implemented processes to monitor and improve CAIS program delivery, and
- ensured that all parties to the federal-provincial-territorial agreements had fulfilled their respective audit and reporting responsibilities regarding the CAIS program.

Audit work completed

Audit work for this chapter was substantially completed on 31 October 2006.

Audit team

Assistant Auditor General: Andrew Lennox
Principal: Frances Taylor
Director: Raymond Kunze

Ian Campbell
Alina Dan

For information, please contact Communications at 613-995-3708 or 1-888-761-5953 (toll-free).

Appendix List of recommendations

The following is a list of recommendations found in Chapter 4. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Canadian Agricultural Income Stabilization program applications	
4.31 Agriculture and Agri-Food Canada should improve the transparency of the final statement that it sends to producers about their farm income support program benefits. The Department should clearly and fully explain how it calculates benefits, including what information it changes and why it makes the changes. (4.15–4.30)	The Department agrees with the recommendation and has already taken steps to improve the transparency of the information it provides to producers. More specifically, it intends to add explanations of benefit calculations and adjustments and what to do if producers have questions or disagree with the Department's decisions to the Calculation of Program Benefits statements for the 2007 year. Implementing this recommendation will also add to improvements that the Department has already made to its communications with producers as well as to changes to make the program simpler and more accessible, such as making program parameter changes, harmonizing its forms with the Canada Revenue Agency, reducing its supplementary form, and offering on-line My Account and calculator features.
4.44 Agriculture and Agri-Food Canada should use a statistically valid methodology to estimate errors in farm income support program payments. (4.32–4.43)	The Department agrees with the recommendation and is investigating the cost and feasibility of implementing additional accuracy determination methodologies to supplement approaches, which it will implement if they are found to be cost-effective and feasible. Added to the significant progress the Department has already made to reduce errors, implementing this recommendation could further enhance its current approach to internal reviews and verification.
4.46 Agriculture and Agri-Food Canada should establish and publicize a target for the accuracy of payments for its farm income support programs, and should report to Parliament, and other interested parties, how well it meets this target. (4.32–4.45)	The Department agrees with establishing a target for the accuracy of payments and, as noted, has in fact established an internal target. The Department will also take into consideration the recommendation to report to Parliament, and other interested parties, on its achievements in meeting payment accuracy targets.

Recommendation	Response
4.58 When estimating errors in payments from farm income support programs, Agriculture and Agri-Food Canada should include zero payment applications in its post-payment samples. **(4.47–4.57)**	The Department agrees with the recommendation and is investigating the cost and feasibility of implementing additional accuracy determination methodologies, including sampling zero payment files, which it will implement if they are found to be feasible and cost-effective.
4.60 When processing applications for benefits, under farm income support programs, the emphasis that Agriculture and Agri-Food Canada places on efforts to prevent, detect, and correct both under-payments and over-payments to producers should be proportional to the relative risks of underpayments compared to overpayments—as determined through the Department's revised post-payment sampling results and as recommended elsewhere in this chapter. **(4.32–4.59)**	The Department agrees with the recommendation. It will undertake, as indicated in its responses to other recommendations elsewhere in the chapter, to adjust its review and verification processes; to ensure a balance between overpayments and underpayments; and to ensure that, by the time payments reach producers, both have been identified and corrected to the same degree. Efforts in this regard will be proportional to the relative risks of underpayments compared with overpayments and will reflect both producers' interests and the overall integrity of the program.
4.74 Agriculture and Agri-Food Canada should strengthen its focus on continuous improvement in the administration of its farm income support programs by systematically • collecting relevant information about the nature, extent, and timing of errors; • analyzing the information; and • continually applying the results of the analyses to improve all phases of application processing, under the Department's farm income support programs. **(4.61–4.73)**	The Department agrees with the recommendation to strengthen its focus on continuous improvement. Specifically, the Department agrees that using all the information it has available more systematically will ensure that it builds on past improvements, while fostering a stronger continuous improvement culture.

Recommendation	Response
4.82 Agriculture and Agri-Food Canada should set realistic service time standards for processing farm income support program applications and should accurately measure its performance against those standards. **(4.75–4.81)**	The Department agrees with the recommendation and will continue working with provincial partners to establish national service standards for the CAIS program to improve the predictability of CAIS processing.
Provisions of the federal-provincial-territorial agreements	
4.90 Agriculture and Agri-Food Canada should ensure that it meets the audit and reporting requirements of the federal-provincial-territorial agreements. **(4.83–4.89)**	The Department agrees with the need to meet the audit and reporting requirements of the federal-provincial-territorial agreements. In this regard, it has already been working with provinces on finalizing audit parameters and carrying out audits and will accelerate this work to ensure that audits are conducted in a more timely manner.
Performance monitoring and reporting	
4.96 Agriculture and Agri-Food Canada should • establish specific and measurable targets for all of the performance indicators in its Results-Based Management and Accountability Framework; and • produce timely reports to Parliament on the performance of farm income support programs, measured against those targets. **(4.91–4.95)**	The Department agrees with this recommendation. It will, in conjunction with its provincial counterparts, develop targets for each of the measures in the Results-Based Management and Accountability Framework and report progress and achievements, on these targets, in the annual departmental performance report to Parliament. This task will be completed by December 2007 and will include, for example, targets related to producer participation in CAIS and to timeliness of payments.

Recommendation	Response
Conflict of interest	
4.110 Agriculture and Agri-Food Canada should strengthen measures to reduce the risks of potential conflicts of interest. At a minimum, the Department should strengthen its values and ethics program—making it clear to employees that they cannot prepare applications for others for a fee—and establish processes to • identify processors who also prepare applications for farm income support programs; • address risks associated with employees preparing applications for their own farms or their families' farms, including performing on-farm audits if necessary; and • ensure that all applications prepared by farm income support program employees are approved manually rather than electronically. (4.97–4.109)	The Department agrees. It has been strengthening, and will continue to strengthen, its values and ethics program, by continuing to advise all new staff of their obligations, under the *Values and Ethics Code for Public Servants*, and reminding them of their obligations on an annual basis. Recently, the Department strengthened its conflict of interest processes to proactively involve management in the resolution of potential or actual conflicts of interest. The Department has also recently instituted a formal training program and will be delivering this program across the country. Additionally, it has instituted a 1-800 hotline number where employees and managers can get immediate assistance. CAIS processors are required to self identify if they are completing a CAIS application for themselves, for a family member, or for friends. They are also asked to identify that application, and these applications are then processed by someone other than themselves in a separate team designated for that function, effectively distancing the employee from that application. Finally, the Department has informed employees through a Deputy Minister letter that they cannot prepare CAIS applications for a fee. This will be repeated on a yearly basis.

Report of the Auditor General of Canada to the House of Commons—May 2007

Main Table of Contents

	A Message from the Auditor General of Canada **Main Points—Chapters 1 to 7**
Chapter 1	Use of Acquisition and Travel Cards
Chapter 2	Federal Loans and Grants for Post-Secondary Education—Human Resources and Social Development Canada and Canada Millennium Scholarship Foundation
Chapter 3	Human Resources Management—Foreign Affairs and International Trade Canada
Chapter 4	Canadian Agricultural Income Stabilization—Agriculture and Agri-Food Canada
Chapter 5	Managing the Delivery of Legal Services to Government—Department of Justice Canada
Chapter 6	Modernizing the NORAD System in Canada—National Defence
Chapter 7	Management of Forensic Laboratory Services—Royal Canadian Mounted Police

CA1
AG
A55

2007



Report of the

Auditor General of Canada

to the House of Commons

MAY

Chapter 5
Managing the Delivery of Legal Services to Government—Department of Justice Canada

Office of the Auditor General of Canada



2007



Report of the

Auditor General of Canada

to the House of Commons

MAY

Chapter 5

Managing the Delivery of Legal Services to Government—Department of Justice Canada

Office of the Auditor General of Canada

The May 2007 Report of the Auditor General of Canada comprises A Message from the Auditor General of Canada, Main Points—Chapters 1 to 7, and seven chapters. The main table of contents for the Report is found at the end of this publication.

LIBRARY
MAY 29 2007
UNIVERSITY OF TORONTO

The Report is available on our website at www.oag-bvg.gc.ca.

For copies of the Report or other Office of the Auditor General publications, contact

Office of the Auditor General of Canada
240 Sparks Street, Stop 10-1
Ottawa, Ontario
K1A 0G6

Telephone: 613-952-0213, ext. 5000, or 1-888-761-5953
Fax: 613-943-5485
Hearing impaired only TTY: 613-954-8042
Email: distribution@oag-bvg.gc.ca

Ce document est également publié en français.

© Minister of Public Works and Government Services Canada 2007
Cat. No. FA1-2007/2-5E
ISBN 978-0-662-45622-3

Chapter

5

Managing the Delivery of Legal Services to Government

Department of Justice Canada

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Table of Contents

Main Points 1

Introduction 5

The Role of the Department of Justice Canada 5

Focus of the audit 8

Observations and Recommendations 8

Progress since our 1993 audit 8

The Department has made recent efforts to improve strategic planning 8

The Department has improved its management of external legal agents in some areas 9

Management improvements are required for alternative dispute resolution initiatives 11

Reporting to Parliament needs improvements 12

Quality assurance 14

The Department has not articulated what it means by quality legal services 14

The Department has elements of quality management 15

The Department does not have systematic and reliable assurance of the quality of its services 21

Resource management 22

The Department does not use workload and human resources information to manage cost-effective legal services 22

Financial arrangements with government departments continue to provide few reasons to improve resource management 23

The administration of financial arrangements is inefficient 25

Financial information provided to client departments is weak and inconsistent 25

The Department needs better professional management 26

Conclusion 28

About the Audit 30

Appendix

List of recommendations 33



Managing the Delivery of Legal Services to Government

Department of Justice Canada

Main Points

What we examined

Each department and agency of the federal government requires legal counsel to provide it with legal advice, to draft regulations and legislation, and to represent it in court. The Department of Justice Canada (Justice Canada) provides these services to all departments and agencies, with a few exceptions. In addition, it enforces regulations and legislation through prosecution, and examines the need for changes in legislation. We examined whether the Department effectively manages the delivery of legal services to meet the needs of government. We also looked at whether it takes appropriate steps to ensure the quality of the legal services and whether it delivers them in a cost-effective manner.

Up to the end of our examination, prosecution services were provided by the Federal Prosecution Service—a branch of Justice Canada—and were included in our audit scope. Prosecution services became the responsibility of the Public Prosecution Service of Canada when it was created under the *Federal Accountability Act*, which received royal assent on 12 December 2006. This new organization is separate from Justice Canada and reports to the Attorney General. Our findings and recommendations relate to the work now carried out by the Public Prosecution Service of Canada as well as the work of Justice Canada.

Why it's important

Canadians rely on lawyers to provide them with advice on, for example, purchasing or selling property, entering contracts, or settling disputes. Government departments and agencies rely on their lawyers for the same services. Justice Canada also covers a range of legal advisory, litigation (including prosecution), and legislative services. The Department's job is complicated by the fact that its lawyers represent the interests not only of each client department but also of the government as a whole.

Approximately 2,500 lawyers work for Justice Canada. Since our last audit in 1993 the annual cost of the Department's legal services has more than tripled to over $600 million. This significant increase is attributed to growing complexity and volume of litigation and prosecutions, as well as the growth in demand for legal services to

departments since the introduction of the 1982 Charter of Rights and Freedoms. The Department has also faced more demand for its services in areas such as Aboriginal affairs, taxation, drug prosecutions, and immigration.

What we found

- The Department puts considerable effort into ensuring the quality of the legal services it provides to the government—its stated objective. While it does not have an overall quality management system, it uses several practices to promote quality. To date, its quality management efforts have focused on complex and high-risk litigation. It has also invested in information systems, development of guide books, and training and development of its staff. However, the Department has not expressed what it means by quality. This impedes its ability to deliver consistent quality of service to its 42 client departments and assess whether it is meeting its objective. It also lacks a system to provide senior management with ongoing assurance that all services meet established minimum standards.
- The Department lacks information on the volume of its work and its use of staff—information that would demonstrate whether it is delivering legal services cost-effectively. It has some time-keeping data for some lawyers, but recording time worked has only recently become a department-wide requirement. Justice Canada does not collect and use department-wide financial and workload information for monitoring trends, planning, setting priorities, managing resources, analyzing service delivery options, or identifying opportunities to control costs.
- Justice Canada shares the cost of legal services with departments. It has numerous financial arrangements with client departments—more than 100 arrangements with the eight departments we interviewed. Its financial arrangements are inconsistent, poorly documented, and inefficient to administer. Justice Canada has little incentive to control the costs of its services, because any unanticipated costs of legal services are borne by the client departments involved. Client departments also have little incentive to control their legal costs, which they are able to absorb as a small percentage of their total costs; for significant costs they can seek additional funding through the Treasury Board. Without good information on costs, it is difficult to manage and control the growing demand in departments for legal services and to find more efficient ways of providing them.

- The total costs of legal services incurred across the government are not consolidated for reporting to Parliament. Justice Canada reports the total costs of its legal services and the total amount recovered from departments. Each client department might report the costs of the legal services provided to it by Justice Canada, but other legal costs paid by departments are not readily identifiable because they are not reported separately from other operating expenditures.
- Much of what we found had been identified in our 1993 audit as weaknesses. The Department has made progress in managing legal risk, managing legal agents, and introducing time-keeping into the Department. However, we found no evidence of results in some important areas, despite efforts by the Department—notably the use of department-wide information on workload and human resources and its financial arrangements with client departments.

The Department has responded. The Department of Justice Canada agrees with each of our recommendations. Its detailed response follows each recommendation throughout the chapter.

Introduction

The Role of the Department of Justice Canada

5.1 The Department of Justice Canada (Justice Canada) can be characterized as Canada's largest law firm with approximately 2,500 lawyers and an estimated budget of close to $1 billion for the 2006–07 fiscal year. This includes approximately $625 million for legal services provided to government. These services include providing legal advice on departments' policies and programs, drafting new and amending existing legislation and regulations, and representing the government in court—whether in defence of civil litigation or to enforce Canada's laws through federal prosecutions. The remainder of the $1 billion represents funds for Justice Canada policy development, as well as cost-shared and contribution programs, such as Aboriginal justice, youth justice, and legal aid. These programs and policy development are not within the scope of this audit (Exhibit 5.1).

5.2 At the time of our audit, Justice Canada was responsible for

- developing policies and laws,
- providing legislative services to government,
- providing legal advisory and litigation services to government,
- providing prosecution services, and
- delivering legal programs.

The Minister of Justice is also the Attorney General of Canada. The two titles reflect the two different aspects of the position.

The **Minister of Justice** is responsible for more than 45 statutes and areas of federal law, such as human rights, family and youth law, administrative law, Aboriginal justice, general public law, and private international law. The Minister introduces policies and programs that not only change the law, but are also intended to influence the way the law is applied; how the legal system functions; and how individuals, such as victims of crime, and groups, such as support services in family law, interact with the system. The Department enacts reform and provides advice on all reforms related to criminal law.

The **Attorney General** advises federal departments and agencies on behalf of the Crown, and represents the Crown whenever legal actions are taken against a federal body. The Attorney General also oversees the prosecution of violations of federal law in all the provinces as well as the prosecution of all federal offences, including Criminal Code violations, in the territories.

Source: Department of Justice Canada

Exhibit 5.1 Scope of the audit

Within the scope of this audit	
Departmental responsibility	**Examples of departmental responsibilities**
Providing legislative services to government	Drafting and reviewing legislation and regulations in both official languages, reflecting both the common and civil law traditions in Canada.
Providing legal advice to government	Providing legal advice on behalf of the Crown to government departments and agencies. The Department is mandated to provide legal advice only to the federal government.
Litigation services to government	Representing the Crown whenever legal actions are taken against a federal body.
Providing prosecution services	Undertaking federal prosecutions and criminal litigation on behalf of the Attorney General of Canada.
Outside the scope of this audit	
Departmental responsibility	**Examples of departmental responsibilities**
Development of Justice Canada policies and laws	The Minister and the Department are responsible for 45 statutes and laws. The Minister has sole or shared responsibility to Parliament for these laws, including Canadian Human Rights, Youth Criminal Justice, Access to Information, Divorce, and Official Languages.
Programs and initiatives to support Justice Canada policies	The Department develops and administers programs in support of the 45 statutes and laws in areas such as human rights, youth justice, Aboriginal justice, family justice, criminal law, privacy, and official languages.

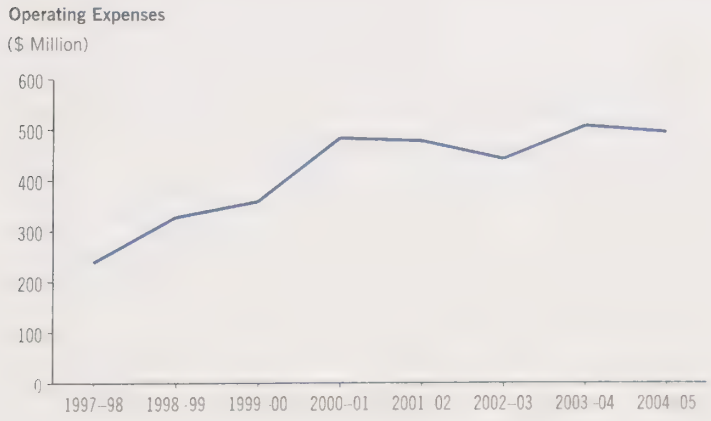
Source: Based on information provided by the Department of Justice Canada

5.3 From its headquarters in Ottawa, Justice Canada delivers legal services to departments and agencies (referred to as departments throughout the chapter) and in six regions located across the country that primarily provide litigation and prosecution services. In 1995 the Department introduced a "portfolio" structure intended to deliver legal services to client departments more effectively. These portfolios include Business and Regulatory Law; Tax Law; Aboriginal Affairs; Citizenship, Immigration, and Public Safety; and Central Agencies. The Department also developed specialized centralized branches for civil litigation, federal prosecution and public law. While the regions report to one of three associate deputy ministers for operational purposes, they obtain their budgets and receive functional guidance from each of the portfolios and branches. As well, 42 legal services units located on the client departments' premises deliver advisory services to client departments with oversight from headquarters.

5.4 Justice Canada told us that it faces many challenges. The complexity and volume of litigation has continued to increase, as has the demand for legislation and legal advice to departments since the 1982 *Charter of Rights and Freedoms*. Pressures are particularly significant in such areas as taxation, drug prosecutions, immigration, and Aboriginal issues. Unlike a private sector law firm, the Department does not have the option to choose the cases it will undertake. It must respond to incoming lawsuits in civil litigation and criminal prosecution from police agencies and, as a result, does not control the volume of incoming work. Consequently, there has been a significant increase in the costs of the legal services the Department delivers to government. We found that Justice Canada's total operating expenses more than doubled from 1997–98 to 2004–05 (Exhibit 5.2).

5.5 Canadians see the role Justice Canada plays almost every day in the news. The Department is involved in challenges to immigration and deportation decisions and rulings, class action suits against the government on lost revenue from Bovine Spongiform Encephalopathy (BSE or Mad Cow Disease) and tainted blood. Other cases involving Aboriginal rights, security certificates, and prosecution of individuals and groups involved in organized crime can include constitutional challenges.

Exhibit 5.2 Justice Canada's operating expenses more than doubled from 1997–98 to 2004–05



1. In 2003–04 the Department revised its reporting of expenditures to include approximately $117 million for lawyers providing services to other government departments, whose salaries had been reimbursed by the departments.
2. Operating expenses included the Canadian Firearms Centre until 2003–04, when it was transferred to the Minister of Public Safety and Emergency Preparedness and renamed the Canada Firearms Centre.

Source: Public Works and Government Services Canada, *Public Accounts of Canada*

5.6 Less visible are cases where Justice Canada lawyers represent the Crown, for example, in challenges to an individual's income tax assessment or claims for compensation for injuries sustained when a dog bites a postal worker. On a daily basis Justice Canada also provides advice to every government department in developing government policy, legislation, and regulations, as well as administrative matters related to staffing and contracting.

Focus of the audit

5.7 In this audit we examined whether the Department was effectively managing the delivery of legal services to meet the needs of government. We also examined whether the Department has assurance it is delivering quality legal services, and whether it is delivering these services in a cost-effective manner. In the course of our audit, we determined whether the Department had made progress since our last audit in 1993.

5.8 More details on the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Observations and Recommendations

Progress since our 1993 audit

5.9 In 1993, the Office of the Auditor General conducted an audit of Justice Canada's Legal Advisory and Litigation Services (Chapter 17). We found certain weaknesses in its management of the delivery of legal services. In this audit, we revisited some of these issues—specifically strategic planning, management of external legal agents, alternative dispute resolution initiatives, and reporting to Parliament.

The Department has made recent efforts to improve strategic planning

5.10 In 1993 we found the Department had neither a corporate plan nor equivalent plans at the sector level and was only beginning to implement processes for priority-setting and planning.

5.11 At the time of this audit, we expected to see improvements in the Department's corporate strategic planning processes. These processes provide a framework to assess and set priorities and to allocate resources required to deliver legal services. A strategic plan is also the basis for managing overall financial resources and coordinating the strategies and action plans for all Department sectors.

5.12 Since 1993 the Department has made efforts to implement better strategic planning and management practices. For example, the Department had developed a document—Strategic Plan 2001–2005. However, in this period, operational plans were not formally aligned with this corporate strategic plan. Without this alignment, there is a risk that the Department is not coordinated in achieving its corporate objectives. Further, we found that the former strategic plan had not been updated over the four-year period, rendering it out of date. At the time of this audit, the Department was in the process of establishing a new strategic plan as well as improving its operational planning and performance measurement systems. However, the Department has not completed implementing these improvements.

5.13 Recommendation. Justice Canada should complete its corporate strategic planning and develop strategies to meet its long-term goals.

The Department's response. The Department agrees with the Auditor General's recommendation. The Department created the Office of Strategic Planning and Performance Management in February 2005 to begin to strengthen the Department's strategic planning and performance management capabilities, including integrating planning and strategic analysis, and performance measurement and reporting for the Department. The Department is also developing a corporate human resources strategy, which encompasses the key strategic human resources priorities of the Department as well as other human resources management initiatives in support of government-wide priorities. The Department will continue its efforts to implement planning frameworks and processes that reflect the unique needs and challenges that it faces in meeting its strategic outcomes.

The Department has improved its management of external legal agents in some areas

5.14 The Department hires two types of external legal agents for its litigation services. Standing agents provide prosecution services for indeterminate periods, while civil agents work on a case-by-case basis. Note that Justice Canada is not required to follow government procurement policies when appointing legal agents. The Minister of Justice is responsible for all appointments of external legal agents both for Justice Canada and client departments and has primary responsibility and accountability for agents' performance.

Standing agents—lawyers or law firms contracted to carry out prosecutions in areas where the Department does not have a regional office or where travel costs would be prohibitive. As well, the Department uses standing agents in larger cities for routine prosecution cases.

5.15 Standing agents. In our 1993 audit we reported problems where standing agents of the Federal Prosecution Service (FPS) received little supervision. The Department recognized the need for

improvements in its information on what agents are doing and how they are performing. We expected to find that the Department had corrected these deficiencies and that it effectively manages its use of standing agents.

5.16 In 2000 the Federal Prosecution Service (FPS) implemented an Agent Affairs Program to better manage its standing agents. A subsequent internal audit in 2003 found that certain procurement problems continued to exist. In our current audit we found that since 1993 there have been improvements to the procurement and management of agents hired for federal prosecution. These improvements include better processes to identify agents whose charges exceed expected amounts, and to take follow-up action.

5.17 We selected 25 FPS standing agent files. In our review we found

- evidence that screening processes were used for those counsel who were recently engaged,
- documentation on the ongoing communication and supervision of the agents, and
- reviews for reasonableness of invoices submitted by standing agents were performed and signed by the supervision unit.

However, in the file review we found no formal evaluations of the standing agents and no documentation of corrective action taken where poor performance had been noted.

Civil agents (or ad-hoc agents)—lawyers or law firms contracted to carry out civil litigation or other civil work on behalf of the Department due to their specific area of expertise or the lack of available Justice Canada lawyers.

5.18 **Civil agents.** In our review of 21 contracts for legal agents for civil litigation and civil work, we examined the processes for the selection, appointment, and management of these agents. We found

- no documentation of an in-house search for qualified counsel prior to seeking outside counsel;
- no documented rationale for the selection of the legal agent;
- no consistent basic information, such as start and end dates, estimated number of hours, estimated total value of the work, and terms of work in the agreement between the outside lawyer and the Department;
- no consistent monitoring of the ongoing costs of an agreement. In some agreements, numerous detailed invoices received were not summarized and added together to inform the Department of the ongoing cost of the case; and
- no documented evaluation of the performance of civil litigation agents was required for their files, according to the Department's

policy for civil litigation agents—whether for good or poor performance. Only poor performance would be brought to the attention of a supervisor. It was not clear how performance information on an agent would be used in the negotiation or selection of agents for future work.

5.19 While we are aware that the Department is taking a number of steps to improve the processes for hiring and managing civil agents—such as establishing a pool of eligible law firms for civil agent work—it is too early to assess the results.

5.20 **Recommendation.** Justice Canada should examine the weaknesses noted in its management of legal agents used for civil work and take corrective action.

The Department's response. The Department agrees with the Auditor General's recommendation. In fact, the Department has an action plan to support the continued implementation of improvements to the management of legal agents. This action plan will also address the issues raised by the Auditor General.

Management improvements are required for alternative dispute resolution initiatives

5.21 In our 1993 audit we noted that the Treasury Board approved recommendations arising from the first phase of the joint review of the justice and legal system and recommended the Department review alternative dispute resolution mechanisms as a means to reduce costs.

5.22 In this audit we found that Justice Canada, in conjunction with client departments, has implemented a number of alternate strategies to litigation over the years in order to avoid costly court processes. We assessed five strategies:

- the Competition Bureau's use of Alternate Case Resolution,
- Fisheries and Oceans Canada's project for Controlling Prosecution Costs,
- Indian and Northern Affairs Canada's Saskatchewan Treaty Land Entitlement Settlement program,
- Justice Canada's pilot project in its Prairie Region to promote mediation in Alberta for resolution of litigation files, and
- the establishment of the Canadian Food Inspection Agency's centre of expertise on Dispute Resolution to avoid litigation by using alternate dispute resolution.

5.23 We expected each of the initiatives to have clear objectives, scope, reasonable timelines, adequate resources, and ongoing monitoring and review mechanisms in place, and that the initiatives were implemented within the timelines established and within budget.

5.24 We found that most of the documentation on the initiatives lacked clear objectives and estimates of potential cost savings. We did not find an identified project management structure that would guide the initiatives, and there was no formal review of outcomes against the original objectives.

5.25 Recommendation. In addition to its current management of alternative dispute resolution initiatives, Justice Canada should ensure that it clearly defines each initiative's objectives, estimates the potential cost savings and formally reviews the outcome of initiatives against their objectives.

The Department's response. The Department agrees with the Auditor General's recommendation, which is consistent with the recent review of the Department's dispute resolution initiative that has resulted in a new mandate focused on providing services to departments supporting long-term prevention and early resolution of disputes. These client-focused services include systems design, legal advisory support, and training, all of which are linked to the departmental priorities of improving practice management and managing the volume of litigation.

Reporting to Parliament needs improvements

5.26 In our 1993 audit, we noted that Parliament was not aware of the full cost of delivering litigation and advisory services because client departments bore significant proportions of the costs.

5.27 In our current audit we found there is still no reporting to Parliament on the overall cost incurred across government for legal services. Justice Canada reports the total costs of its legal services and the total amount recovered from departments. Each client department might report the costs of the legal services provided to it by Justice Canada, but other legal costs paid by departments are not readily identifiable because they are not reported separately from other operating expenditures. For example, we reviewed a study of estimated costs for the 2003–04 fiscal year prepared by the Justice Canada legal services unit for Transport Canada, which is a large user of legal services, and found that Justice Canada paid $7.8 million in legal services provided to Transport, of which $5.2 million was cost

recovered. However, Transport Canada incurred an additional $1.3 million for legal services support and legal agents. Some of these additional costs are not easily identifiable as legal costs because they are included in Transport Canada's reports to Parliament as operating expenditures. There is no consolidated report to Parliament on the total costs incurred by government for legal services. We were not able to estimate this amount as the data is not available from Justice Canada.

5.28 We also reviewed the Department's annual reports to Parliament: the Report on Plans and Priorities and the Departmental Performance Report. In our assessment of the performance reporting, we found that the Department clearly outlined its main objectives and provided financial information on the costs of these objectives. However, there were few meaningful performance measures in its reports to Parliament. As well, the information provided in the annual performance report was not aligned with the plans and priorities for the period. Justice Canada is undertaking an initiative to improve its performance reporting.

5.29 **Recommendation.** Justice Canada should define performance measures for its corporate priorities and improve its performance reporting to Parliament.

The Department's response. The Department agrees with the Auditor General's recommendation. As part of its departmental performance report to Parliament, the Department will incorporate relevant measures from the annual assessment of our Management Accountability Framework completed by the Treasury Board Secretariat.

More broadly, the Department has implemented a number of changes to its annual reports on plans and priorities and departmental performance reports in an effort to improve reporting to Parliament and the public on the results of departmental initiatives and priorities. Also, as part of its efforts to improve reporting, the Department has implemented a practice whereby a committee of performance measurement specialists within the Department, as well as one external adviser, assess the quality of data used to arrive at management's assessments of the degree to which the Department is achieving its priorities each year. The results of these reviews are reported in the departmental performance report.

Quality assurance

5.30 Central to Justice Canada's mission is the delivery of high-quality legal services to government. Quality assurance is a systematic process that should provide senior management with ongoing and reliable assurance that all services meet minimum quality standards.

5.31 In particular, we expected the Department to

- have articulated an expression of quality and communicated it across Justice Canada and with client departments in order to promote a consistent understanding and expectation of quality services;
- manage the quality of its legal services, by assessing the level of risk and assigning appropriately qualified staff who deliver relevant legal services in a timely and reliable manner; and
- have a system in place to provide senior management with ongoing and reliable assurance that all services meet established minimum standards.

5.32 During our audit we found few areas where the Department was doing well and more areas where it could make improvements. The following observations provide details on our findings. At the end of this section, we provide one recommendation that addresses the need for a comprehensive quality assurance system.

The Department has not articulated what it means by quality legal services

5.33 We found that the department has not articulated what it means by quality legal services. Most lawyers we asked had their own definition of quality, for example, performing thorough research on the legal issue, providing advice that is consistent with previous positions taken, and writing clearly, to name a few. However, without a departmental expression of quality, it is difficult to have a consistent understanding of quality legal services across the Department. Further, this lack of an expression of quality makes it difficult for the Department to assess whether it is delivering legal services that meet its quality expectations.

5.34 Justice Canada delivers legal services to 42 client departments across the government. We expected that Justice Canada would reach an agreement with each client department on the quality of legal services to be provided. We did not find an agreed-upon, written expression of quality legal services used consistently for all client departments. Without this shared understanding, it is difficult for Justice Canada to meet client department's expectations and to determine whether it is delivering quality consistently across the government.

5.35 Justice Canada needs to clearly articulate what it means by quality legal services and ensure that this is understood and used across the Department and with all client departments.

The Department has elements of quality management

5.36 We found that the Department does not have a formal, systematic approach to managing quality; however, it provided us with a list of its quality management practices:

- legal risk management;
- staff training and development;
- tools for lawyers such as information systems and guide books;
- service standards defined for a number of portfolios, branches, and regions; and
- practices to deliver services to client departments.

In the absence of an overall framework, we examined these practices and present the following observations.

5.37 **Legal risk management.** Since 2000 the Department has sought to manage legal risks more effectively, starting with a focus on litigation services. While the Department is not yet consistently using legal risk assessment in its advisory work, we were informed that it is developing new principles and practices specific to advisory services. Our audit focused on the systems in place to manage litigation risk.

5.38 The Department uses litigation risk management to guide the ongoing monitoring and reporting of civil litigation and prosecution cases. Justice Canada lawyers assess the level and impact of risk to the government's policies, laws, programs, or finances; to federal/provincial/territorial or international relations; and to public confidence in government or the courts. They evaluate the likelihood of an adverse outcome of a case—low, medium, or high—and assess the potential impact—minor, moderate, or significant (Exhibit 5.3). The Department uses a three-by-three grid and standard criteria to assess risks and develop management actions. This risk assessment is prepared by the lead counsel on the case who is expected to change the assessment if necessary as the case proceeds.

5.39 We found the litigation risk management framework to be a good tool that provides an effective means of analyzing new cases and communicating their risk in a consistent fashion. This practice is designed to share the understanding of the risks and rankings of cases

Exhibit 5.3 The Department has a good risk assessment tool that incorporates management actions

Risk Level (Risk Management Actions)

Impact	Low	Medium	High
Significant	Considerable management required **Risk Level 7**	Must manage and monitor risks **Risk Level 8**	Extensive management essential **Risk Level 9**
Moderate	Risks may be worth accepting, with monitoring **Risk Level 4**	Management effort worthwhile **Risk Level 5**	Management effort required **Risk Level 6**
Minor	Accept risks **Risk Level 1**	Accept, but monitor risks **Risk Level 2**	Manage and monitor risks **Risk Level 3**

Likelihood of adverse outcome

Source: Department of Justice Canada

across the Department and to support the management and mitigation of the risks. As well, resources are assigned depending on the risk level and complexity of the case.

5.40 At the Department, files with higher risk levels receive more attention from senior management. Cases assessed as having a potentially significant impact (risk levels 7 to 9) are supposed to be reported to the Deputy Minister on a regular basis, while cases assessed from 1 to 6 are not likely to be discussed beyond the regional level. Central committees discuss key litigation cases and class action litigation in order to develop broad litigation strategies, resolve differing views on legal issues, and ensure consistency in arguments. In our review of 91 files, we found evidence that portfolio heads and committees reviewed and approved strategies and arguments for high-risk litigation cases, as required by the Department.

5.41 While the litigation risk management framework is a good tool, its effective use depends on the correct initial assessment made by individual lawyers. We found that, in some instances, the lead counsel's risk assessment was not challenged. This could lead to inadequate preparation for the case. While we have some evidence that Justice Canada and client departments did joint risk assessments, we found no documented evidence of this in the case files we reviewed. Justice Canada and client departments need to review and approve the initial risk assessment score and any subsequent need for changes to the score.

5.42 The current litigation risk model assigns senior management attention to a case assessed as a 7, which has a low probability of an adverse outcome. Meanwhile, a case assessed as a 6, which has a high likelihood of an adverse outcome with a moderate impact, does not receive senior management attention, but receives attention in the region. We consider the level 6 designation may not ensure the appropriate management action to mitigate risk. The Department is aware of this issue and has decided to continue with this grid. However, it needs to ensure that special attention is given to cases where a potentially incorrect score could have a considerable impact on its oversight of the case.

5.43 As noted earlier, the Department does not consistently use risk management in its advisory services at this time. As a result, it is not in a position to properly assess these legal risks and to mitigate them. Furthermore, Justice Canada does not have the risk assessment information that would help allocate the appropriate quantity and quality of legal resources to advisory work.

5.44 Human resources management. Planning and managing human resources are important in the delivery of quality legal services. However, we did not find a human resources strategy in place at Justice Canada to ensure it can meet its goals, including ensuring the quality of staff. The Department did inform us that it has an initiative under way to identify its human resource management priorities based on operational business plans and government priorities. Still, we did not find a corporate retention strategy or a succession plan. Without a human resource strategy and related plans, the Department risks making staffing decisions that are inconsistent with its long-term goals, as well as not having appropriately qualified staff who deliver timely, reliable, and relevant legal services.

5.45 Client departments rely on the quality and professionalism of lawyers assigned to their department. Maintaining and further developing this expertise is important. Justice Canada's training and development policy includes five days of professional development per year per employee. However, we found that the Department did not consistently provide funds for professional development to support this policy. We also found that the Department does not consistently record training days taken, which limits the information available to monitor training and development.

5.46 The Department has some programs for recruiting articling students and has a performance assessment program that identifies objectives and training needs, which provides feedback to individual

lawyers. It has also made efforts over the past 10 years to integrate defined competencies for lawyers and managers (skills, behaviours, and capabilities) into the human resource management system. However, a list of expected competencies for lawyers and managers was not in place at the time of our audit.

5.47 The Department needs to have a human resource strategy and practices in place to ensure it has appropriately qualified staff to meet its needs for quality. These practices need to include a retention strategy and succession plan, as well as defined competencies for lawyers and managers.

5.48 Quality and professionalism of lawyers. The Department relies heavily on the quality of the individual lawyers for all of its services. Lawyers specialize in certain types of law or services such as litigation, prosecution, legal drafting, or advisory services. They bring to their work the education, skills, expertise, and judgment of their profession. As lawyers gain experience with a client department, they develop knowledge of the department's legislation, regulations, policies, and programs, and are better able to contribute to resolving the legal issues it faces. We found that the client departments we interviewed were satisfied with the quality of individual lawyers assigned to them, and were quite satisfied with the overall services provided. As well, the Justice Canada counsel who heads the legal services unit routinely sits as a full member on departmental executive committees. Client departments informed us that Justice Canada lawyers have improved their advice by identifying possible solutions to legal issues.

5.49 Guidance, information, and documentation. To help ensure the quality and consistency of legal services, the Department has developed extensive guide books for both civil litigation and federal prosecution lawyers. All lawyers must follow the policies, processes, and templates provided. However, we found that the Department does not periodically assess compliance with these guides. Without periodic assessment, management will not know if the guides are effective and followed consistently.

5.50 The Department also uses a number of information systems to help lawyers provide consistent litigation and advisory services. These systems provide Justice Canada lawyers with desktop access to electronic information such as legal precedents and previous key policy advice. They help manage electronic evidence as well as a large number of documents, and help ensure the quality advisory services by making legal opinions available to lawyers situated across the country.

5.51 Unfortunately, lawyers housed in client departments find these information systems difficult to access. As well, we found that the Justice Canada database of legal opinions was not up to date. Without this, lawyers do not have the most recent information available, thus increasing the risk they may provide inconsistent advice. The Department has recognized that these systems are important to deliver quality legal services and that they need improvement. It recently approved a knowledge management strategy. However, full implementation of improvements to the systems will take years to accomplish. In the interim, the Department needs to improve the accessibility of the information systems and establish procedures to ensure the databases are up to date.

5.52 In our review of files, we found a lack of documentation regarding key decisions. We expected documented legal advice supporting decisions to be in the files since it represents communication with client departments. We also expected this documentation to be readily available should there be a change in lawyers during the course of a trial or hearings. The Department needs to review and improve its documentation practices.

5.53 Consistent legal decisions and advice. Given the decentralized delivery of legal services to all departments, we expected Justice Canada to have established mechanisms to provide consistent legal decisions and advice. The Department established a portfolio structure, which allows for numerous points of review to promote consistency when providing advice and opinions and drafting legislation. This structure includes extensive communication and peer review.

5.54 We found that the portfolio structure requires a complicated flow of communications within Justice Canada and with its client departments for both litigation and advisory services. Exhibit 5.4 provides an example of the communications required for a high-impact litigation case with Fisheries and Oceans Canada.

5.55 We find that this structure, while providing multiple points of review, involves significant overhead (cost and time) for Justice Canada. While the Department believes that the structure is appropriate, it has not assessed whether its costs are reasonable. The Department needs to examine the appropriateness of the cost of this structure.

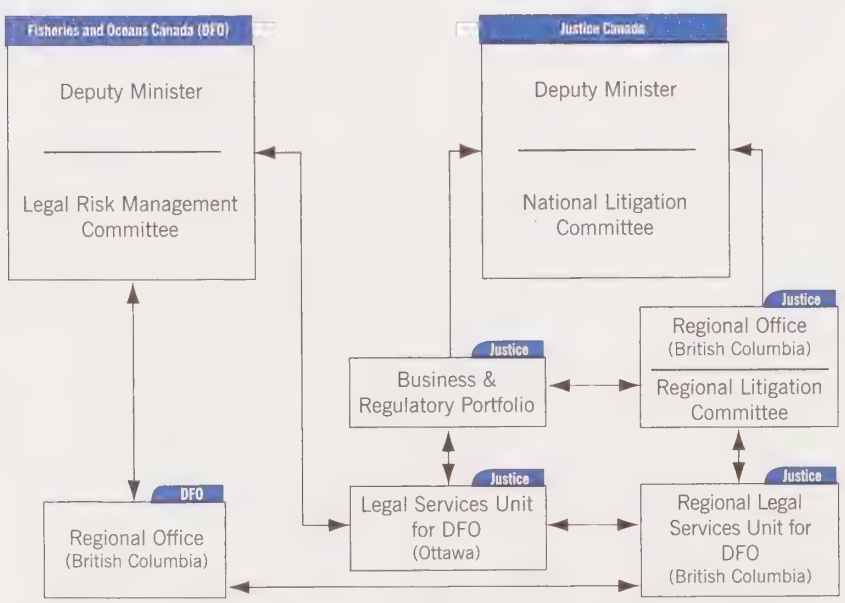
5.56 In the majority of instances, the Department's practices to ensure consistency appear to function well. However, in our interviews with departmental officials regarding advisory services, we found isolated instances where clients received more than one opinion on the

same issue from different Justice Canada lawyers. The departmental officials had expected and wanted a single national opinion from Justice Canada. We were also told of one instance where the differing positions were played out in front of the client who then had to act as conciliator.

5.57 Service standards. Service standards are another tool Justice Canada has to ensure consistency in the delivery of quality legal services to client departments. The service standards we found addressed areas such as responsiveness, clarity of legal advice, and use of plain language. Establishing service standards has been a work-in-progress at the Department since our 1993 audit. At the time of this audit, we found that not all of the portfolios, regions, and branches had service standards in place. Some standards were drafted with client departments, but had not been implemented. Consequently, the practice of using service standards in discussion with clients is not consistent across the Department. Justice Canada needs to complete its service standards and use them consistently in discussions with all client departments.

5.58 Formal feedback. Senior managers at Justice Canada are in touch with government departments on a regular basis in order to receive feedback on their services. Of the eight client departments we reviewed, portfolio heads at Justice Canada meet at least once a year

Exhibit 5.4 Communications within Justice Canada and with its client departments are complex for high-impact cases



with departmental senior officials to discuss the performance of the legal services unit. Managers of the legal services units also seek ongoing informal feedback throughout the year. We were told that client departments would not hesitate to bring quality issues to the attention of senior management at Justice Canada.

5.59 The Department has also used client satisfaction surveys to receive formal feedback on its service. However, we found that the survey results were not comparable or done regularly. This does not allow the Department to compare the feedback across government or track changes in satisfaction over time. The Department recognized that there were problems with its survey methodology and is currently taking steps to improve surveys in order to have a government-wide perspective. It needs to complete these improvements in a timely manner.

The Department does not have systematic and reliable assurance of the quality of its services

5.60 We expected to find that Justice Canada would have a system in place to provide senior management with ongoing and reliable assurance that all products and services meet established minimum standards. This system would include the periodic assessment of the appropriateness of the design and whether the quality management framework provides it with assurance that it is delivering quality legal services. This assessment would help to identify weaknesses, allowing the organization to take corrective action.

5.61 We found, however, that the Department is not assessing whether it has the appropriate design in place and whether it is functioning as intended. The weaknesses in the practices that we have noted in earlier paragraphs could have been identified through such an assessment. The Department does not have assurance that these practices are appropriate and effective in delivering quality in its legal services. Without measuring and assessing its quality practices, the Department is unable to manage quality.

5.62 **Recommendation.** Justice Canada should develop a quality management system or systems for each of its practices to provide senior management with ongoing and reliable assurance that all services meet established minimum quality standards.

The Department's response. The Department agrees with the Auditor General's recommendation and will build on the elements of its quality work recognized by the Office of the Auditor General with a view to having a sound quality management approach.

Resource management

5.63 In light of the significant increases in legal services costs at Justice Canada since our 1993 audit, we expected the Department to have systems and practices in place to effectively manage its resources—that is, to know its costs and workload and to manage the delivery of legal services in a cost-effective and economical way.

The Department does not use workload and human resources information to manage cost-effective legal services

5.64 In our 1993 audit, we noted a lack of management information on workload, costs, and performance, which had an impact on the Department's ability to manage its workload.

5.65 In this audit we expected the Department to be using management information on workload volumes and costs for legal advisory services and litigation in order to monitor trends, plan, set priorities, manage resources, analyze service delivery options, and identify opportunities for controlling costs.

5.66 We found that the Department has taken some steps since 1993 to improve its collection of detailed timekeeping by lawyers for all types of legal services. The Department informed us that it introduced timekeeping in 1996. By 2003, timekeeping was used by most counsel, although not consistently. In December 2006, the Department made timekeeping mandatory for all counsel and paralegals that provide legal services to government departments regardless of the type of work performed—advisory, litigation, or legal drafting. Since consistent timekeeping across the Department was relatively new at the time of our audit, the Department did not have complete information to analyze and compare workload volumes and costs for all of its services.

5.67 Without proper department-wide timekeeping data, the Department lacks information on work volume and its use of staff, and as a result, it has difficulty understanding and controlling its costs. Department managers need timekeeping and human resource information, not only to manage their workloads in the short term, but also to plan and prepare for the future.

5.68 As with timekeeping information, we found that the department does not use its human resource information for department-wide analysis. While we found detailed human resource and cost information, the Department was not using it to estimate the future number and types of positions it will need or its future salary costs. Nor did we find departmental reports that tracked key human resource statistics such as vacancy and turnover rates. This lack of summary

level information limits the Department's ability to analyze its resources, detect trends as they emerge, and make informed decisions.

5.69 For example, we found that the Department had difficulty providing us with department-wide reports. It could not provide a summary report on historical salary expenses and the number of positions by staffing level with information from both its financial and human resources information systems, since these systems have not been reconciled. Also, some employee information available prior to the 2002–03 fiscal year is inconsistent with data collected after that year, making it difficult to analyze trends over time.

5.70 We found the Department manages its finances in a decentralized manner and at a transactional level. Managers in portfolios, branches, and regions know what they have spent and can compare this against their budget. In addition, within the past year, the Department has begun to review a monthly overview of its expenses against its budget.

5.71 In our review of 96 files as well as eight legal services units in key client departments, we found little evidence of Justice Canada using financial and workload information to monitor trends, plan, set priorities, manage resources, analyze service delivery options, and identify opportunities for controlling costs.

5.72 Without key departmental work volume data, and financial and human resource management information that is collected, analyzed, and reported to senior management on a regular basis, the Department does not know whether it is delivering legal services cost-effectively.

Financial arrangements with government departments continue to provide few reasons to improve resource management

Glassco Commission—*The Royal Commission on Government Organization* (1962), headed by J. Grant Glassco, included recommendations to place legal services and lawyers under the responsibility of one department. The benefits of integrating legal services included giving one department responsibility for long-term planning of costs and resources. The Department of Justice implemented integration in 1966.

5.73 From the **Glassco Commission** in 1962 to the late 1980s, Justice Canada paid for almost all legal services for the entire government with the exception of the payment of judgments and settlement of claims. As the demand for legal services exceeded the Department's resources, it sought to recover costs from its clients and adopted different financial arrangements with each department. The departments also directly pay for certain other legal costs, such as paralegals and administrative support staff.

5.74 The government's Common Services Policy requires that all departments across government use Justice Canada for its legal services. This policy prevents these departments from seeking other sources of legal services that could be more cost-effective but could

place the Crown at risk. The policy does require, among other things, that Justice Canada provide services in a cost-effective manner.

5.75 In response to our 1993 audit where we raised a number of issues related to the financial arrangements with client departments, the Department agreed to undertake a study to identify the positive and negative features of current arrangements and options for them. We expected the Department to have analyzed alternatives to its financial arrangements with client departments, developed a clear rationale for using cost recovery, and to have implemented an appropriate system.

5.76 During our current audit we found that the Department and the Treasury Board Secretariat had performed a number of studies on cost recovery and client service since the early 1990s. By the mid-1990s the Department had developed, through consultation with its client departments, a legal services policy framework. This framework was based on principles of joint planning; shared responsibility for costs; and shared accountability for performance, allocation, and use of resources. The Department considered this framework to be a means to manage day-to-day services more effectively, thus reducing the overall costs of legal services to government. The assumption was that departments would moderate or control their demand if they were paying part of the bill.

5.77 A 2003 internal Justice Canada report stated that there continued to be few, if any, incentives to both manage and control the increasing demand for legal services, or identify more efficient ways to deliver legal services. In addition, the report noted that dedicating the same amount of funds as the previous year to each client department limits Justice Canada from reallocating funds from one department to another that may have a greater need for legal services. This report then outlined alternatives to the current financial arrangements that would provide a more consistent approach and better control over increasing demand and costs. The executive agreed to proceed with the proposed changes; however, we found no evidence that these changes were implemented.

5.78 In 2004, the Department continued to address this issue by initiating a Review of Legal Services. The objectives of this initiative were two-fold:

- to improve the sustainability of legal services delivery through improved strategies and a sustainable funding regime; and
- to identify approaches to cost-effectively manage litigation.

5.79 At the time of our audit, this initiative was still under way, although most short-term efforts were focused on the first objective of sustainable funding for legal services. While the Department has developed a number of proposals for changes to the financial arrangements and continues its efforts and discussions, we found no tangible progress on the management and control of the demand and cost for legal services.

5.80 We found that, in the process of developing these proposals, the Department had done little analysis to assess the assumption that cost sharing and recovery would control demand and reduce costs. In fact, since legal costs represent less than one percent of client departments' total budgets, the additional costs are often not a significant factor in deciding whether or not to obtain additional services. Also, if unanticipated legal costs arise during the year for significant issues, client departments may seek additional funds through the Treasury Board. Thus, the current financial arrangements will continue to lack incentives to control costs. Since our last audit, Justice Canada has not been able to find a way to work with client departments to manage demand and thereby reduce costs.

The administration of financial arrangements is inefficient

5.81 At the time of our audit, we were informed that there were multiple financial arrangements, with Justice Canada recovering up to 100 percent for its services. For the 8 client departments we reviewed, we found more than 100 financial arrangements. When we examined the administration related to these financial arrangements, we found it poorly organized and controlled, inconsistent, and with incomplete documentation. We found that the Department's financial services area does not maintain a central collection of all the agreements between Justice Canada and client departments; instead, they are held in each portfolio. By the end of our fieldwork, we were not confident that we had received all of the agreements.

5.82 Justice Canada has estimated a total cost of more than $2 million per year for all Department staff involved in running this overly complicated system. This estimate does not include the administration costs incurred by each client department.

Financial information provided to client departments is weak and inconsistent

5.83 Both the Department and its clients are stewards of the resources under their control. Effective stewardship requires information to effectively plan and manage demand for legal services and the use of resources.

5.84 We expected Justice Canada to be able to inform and report to client departments on the services provided and their overall cost and to have a written agreement in place. We believe that, as the service provider, Justice Canada is responsible for providing this information. In addition, we expected that Justice Canada would routinely provide client departments with the estimated costs of individual cases to improve client department's decision making regarding the cases.

5.85 In our review of eight client departments, we found a variety of financial planning practices in place. Three departments had good joint department-Justice Canada work plans, supported by detailed resource estimates, as well as periodic tracking against these plans. In others, no documentation of consultations was available.

5.86 In our interviews with client departments, most managers using the services had little understanding of the overall cost of legal services provided to their department. While the client departments approve each individual detailed invoice, Justice Canada could not easily provide a roll-up of the financial information on the overall costs of legal services to each client department. In a few instances, we found that client departments tried to develop their own reports in order to better understand and predict the overall costs of their legal services.

5.87 On a case-by-case basis, when a client department requests an opinion or needs legal services, Justice Canada discusses the client's priorities and deadlines. However, it does not consistently provide cost information to allow the client department to make informed decisions about the legal services it requests.

5.88 We reviewed 53 cases that proceeded to litigation or cases that were appealed. While most of the Justice Canada files contained documentation of its advice to clients on whether to proceed, we did not find documentation on the estimated costs. We did, however, find a forecast of expenditures for the coming year for certain significant cases. Still, the client departments did not receive cost information from Justice Canada to help them make an informed decision.

The Department needs better professional management

5.89 During our audit we found that the Department has continued to make efforts, over the past 10 years, to develop and implement a number of initiatives to improve administrative practices. We noted many of these earlier in the chapter, including strategic planning, legal risk management, information systems for lawyers, formal client

surveys, timekeeping, cost recovery through a legal services policy framework, financial and human resource information and reporting, and the Review of Legal Services project.

5.90 We found that the implementation of these initiatives had been ongoing for many years and, at the time of our audit, were still not fully implemented. As a result, we found inconsistent administrative practices across the Department. In our view, Justice Canada does not have the tools in place to provide management with the information it needs to support departmental decision-making.

5.91 The responsibility for management lies with the Deputy Minister. However, given the size of the Department, we expected to find a senior manager with clear delegated authority for the management of administration. This position would complement the Deputy Minister's responsibilities for the law. The Assistant Deputy Minister (ADM) for Corporate Services co-chairs three committees—finance, human resources and information technology—that make recommendations to the main decision-making body—the Senior Management Board. The ADM is also a member of the Senior Management Board. However, this ADM position does not have the authority to make significant decisions for these areas.

5.92 In our opinion, the lack of a senior executive position with delegated authority for management practices has limited the Department's ability to focus on and implement the improvements necessary to manage a large department that is responsible for delivering cost-effective professional services.

5.93 **Recommendation.** Justice Canada should make improvements to its resource management. The Department should

- use management information on workload volumes and costs for all of its legal services to better monitor trends, plan, set priorities, manage resources, analyze service delivery options, and identify opportunities for controlling costs;
- work with client departments to effectively plan, manage, and improve the cost-effectiveness of their financial arrangements with a view to managing demand for legal services and thereby reducing costs; and
- ensure that a senior manager with the necessary authority leads the improvement of management practices at the Department and oversees implementation of these changes.

The Department's response. The Department agrees with the Auditor General's recommendation. The Department of Justice Canada will continue the work underway to develop approaches to further develop its capacity to use management information to enhance management decisions, and regularize its cost recovery agreements with government departments.

The Department is currently working on putting in place an initiative to better coordinate and integrate its law management practices. The Department will, at the same time, review its management practices to identify and put in place corporate reports to provide management information to support departmental decision making. Senior management authority to lead our work on management practices will be strengthened.

Conclusion

5.94 Justice Canada has made progress since our 1993 audit, mainly in the area of managing external legal agents for prosecutions. There remains, however, the need for improvements in managing legal agents for civil work, strategic planning, and managing important initiatives. The Department also needs to improve its performance reporting to Parliament.

5.95 We found that the Department does not have the necessary system or systems to provide assurance that it is delivering quality legal services to government; but it does have some elements of quality management that it can build on. The Department has not assessed whether it had the appropriate design in place and whether it was functioning as intended. We found some practices in place to manage quality such as litigation risk management. However, we also identified weaknesses, which could have been identified through such an assessment. The Department needs to develop a quality management system or systems for each of its practices to ensure that quality is built into its services and to provide senior management with ongoing and reliable assurance that all services meet established minimum quality standards.

5.96 The Department does not have the systems and practices in place to know whether it is delivering its services cost-effectively. It is not using financial and human resource information to its full extent for departmental analysis, to inform senior management, to improve its strategic planning, or in discussions with client departments. Without key corporate work volume data, and financial and human resource

management information that is collected, analyzed, and reported to senior management on a regular basis, the Department does not know if it is delivering legal services cost-effectively.

5.97 We found that the Department has the key systems and practices in place to effectively manage the delivery of legal services to meet the needs of government; however it has not worked with departments to help manage the demand for legal services and thereby reduce costs. The current financial arrangements with client departments have few incentives to manage the increasing demand for legal services and costs. In addition the administration of the numerous cost recovery arrangements is inefficient. The Department has been aware of these problems for a number of years and, despite much effort on its part, we found no progress on this issue.

5.98 In our opinion, the lack of a senior executive position with delegated authority for management practices has limited the Department's ability to focus on and implement the improvements necessary to manage a large department responsible for delivering cost-effective professional services.

About the Audit

Objectives

Our objective was to determine whether

- the Department of Justice Canada (Justice Canada) has the systems, practices, and processes to provide assurance that it is delivering quality at a level commensurate with the assessed risk and that it is managing the delivery of legal services cost-effectively; and
- the Department has key systems, practices, and processes in place to effectively manage the delivery of legal services to meet the needs of government.

Scope and approach

The scope of our audit was the delivery of legal services to government provided by Justice Canada. These services include providing legal advice on departments' policies and programs, drafting new and amending existing legislation and regulations, and representing the government in court—whether in defence of civil litigation or to enforce Canada's laws through federal prosecutions.

Provisions of the *Federal Accountability Act* came into force on 12 December 2006. This act created the independent Public Prosecution Service of Canada to prosecute offences under federal law. The new Public Prosecution Service of Canada is separate from Justice Canada and reports to the Attorney General. At the time of our detailed audit work, these prosecution services were provided by the Federal Prosecution Service—a branch of Justice Canada—and were included in our audit scope. Our findings and recommendations now relate to the work of the Public Prosecution Service of Canada as well as Justice Canada.

We conducted our audit of the delivery of legal services to meet the needs of government through three general approaches—interviews, document reviews, and case file reviews. We also interviewed officials in other legal jurisdictions and in large private sector organizations with sizeable legal services units.

To assess the management of resources for legal services we interviewed senior officials and collected and assessed strategic and business planning documentation from across the Department. We examined the Department's reporting to Parliament over the past three years. To examine the planning and management of resources on a case-by-case basis, we selected a purposeful sample of litigation files on the basis of specific criteria. We stratified files based on the six regions and the Department's defined risk ratings. We selected files from three regions (British Columbia, Ontario, and the Prairies) to allow examination of a range of management styles and risk levels assessed by the Department (high and low). Files were selected evenly across a region with slightly more files in the higher risk category. Files were randomly sampled within the strata. We reviewed 43 of the 45 randomly selected files, as the Department did not have 2 of the files.

To assess the quality management processes, we interviewed management from Justice Canada and 8 client departments (Canada Revenue Agency, Canadian Food Inspection Agency, Citizenship and Immigration Canada, Fisheries and Oceans Canada, Health Canada, Human Resources and Social Development Canada, Indian and Northern Affairs Canada and Transport Canada). The 8 were selected from 42 client departments, based on the complexity of law required for their operations and their heavy

use and reliance on Justice Canada legal services. We reviewed documentation where it was available. We also examined and assessed quality management processes on a case-by-case basis. We selected a purposeful sample of files to review on the basis of specific criteria. The files were stratified based on eight legal service units; risk (high and low); and type of case (for example, appeal, litigation, or advisory). We selected low-risk or high-risk files in order to capture the variation of the practices in place to manage quality. We selected a purposeful sample of 91 files that were randomly sampled within the strata.

To assess the Department's knowledge of its costs and its rationale for the current cost recovery system we interviewed key officials on past, current, and potential future practices for cost recovery. We also collected relevant documentation and requested the agreements supporting the financial arrangements and cost recovery. We examined whether costs played a factor in decisions to proceed with litigation and appeals on a case-by-case basis. We selected a purposeful sample of files to review on the basis of specific criteria. The files were stratified based on the same eight legal service units, risk (high and low), and type of case (appeal and litigation). We selected a purposeful sample of 55 files that were randomly sampled within the strata. Two of these files were not included in our results, as the characteristics of the case were not applicable to our audit test, leaving 53 for which results are reported. We also selected five important initiatives designed to reduce the cost of litigation implemented over the past 10 years to assess the management of the initiative as well as the use of financial information and analysis.

To assess the selection, appointment, and management practices for legal agents, we interviewed management and reviewed documents. In addition, we conducted a file review of the legal agents to examine their procurement process and supervision. These results should not be applied or generalized to the entire population of 7,282 files of the agents and firms selected between fiscal years 2002–03 and 2006–07. Since there are two different types of legal agents, two different samples were selected: Federal Prosecution Services (FPS) and civil litigation. For FPS, we selected three of the six regions—Ontario (Toronto), Quebec, and British Columbia—to capture differing management practices. In addition, two levels of dollar values were chosen (less than $250,000 and $250,000 and greater) to review the level of supervision for higher value agent files. A total of 25 firms were randomly selected within the strata. For civil litigation agents, we randomly sampled 21 cases, selecting the same three regions. However, three dollar-value levels were selected: under $25,000, $25,000 to $250,000, and over $250,000, because the contracts in place were more evenly distributed across these ranges. We sampled a greater number of agents in the middle dollar range from $25,000 to $250,000.

Criteria

We expected to find the following:

- The Department has assurance that it has an appropriate and effective quality management framework in place.
- The Department has the systems and practices in place to effectively manage resources and align them with the needs of government for legal services.
- The Department effectively manages the use of legal agents.
- The Department has appropriate cost management information that it uses to manage the delivery of legal services efficiently and economically.

- The Department has assurance that its cost recovery system is the appropriate mechanism for providing legal services to government in a cost-effective manner.
- The Department develops and implements alternatives to litigation and enforcement as a means to reduce the potential future cost of legal services.

Audit work completed

Audit work for this chapter was substantially completed on 5 December 2006.

Audit team

Assistant Auditor General: Hugh McRoberts
Principal: Gordon Stock
Director: Mary Riopelle

Maryanna Basic
Isabelle Dupuis
Lori-Lee Flanagan
Steven Mariani

For information, please contact Communications at 613-995-3708 or 1-888-761-5953 (toll-free).

Appendix List of recommendations

The following is a list of recommendations found in Chapter 5. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Progress since our 1993 audit	
5.13 Justice Canada should complete its corporate strategic planning and develop strategies to meet its long-term goals. **(5.9–5.12)**	The Department agrees with the Auditor General's recommendation. The Department created the Office of Strategic Planning and Performance Management in February 2005 to begin to strengthen the Department's strategic planning and performance management capabilities, including integrating planning and strategic analysis, and performance measurement and reporting for the Department. The Department is also developing a corporate human resources strategy, which encompasses the key strategic human resources priorities of the Department as well as other human resources management initiatives in support of government-wide priorities. The Department will continue its efforts to implement planning frameworks and processes that reflect the unique needs and challenges that it faces in meeting its strategic outcomes.
5.20 Justice Canada should examine the weaknesses noted in its management of legal agents used for civil work and take corrective action. **(5.14–5.19)**	The Department agrees with the Auditor General's recommendation. In fact, the Department has an action plan to support the continued implementation of improvements to the management of legal agents. This action plan will also address the issues raised by the Auditor General.
5.25 In addition to its current management of alternative dispute resolution initiatives, Justice Canada should ensure that it clearly defines each initiative's objectives, estimates the potential cost savings and formally reviews the outcome of initiatives against their objectives. **(5.21–5.24)**	The Department agrees with the Auditor General's recommendation, which is consistent with the recent review of the Department's dispute resolution initiative that has resulted in a new mandate focused on providing services to departments supporting long-term prevention and early resolution of disputes. These client-focused services include systems design, legal advisory support, and training, all of which are linked to the departmental priorities of improving practice management and managing the volume of litigation.

Recommendation	Response
5.29 Justice Canada should define performance measures for its corporate priorities and improve its performance reporting to Parliament. **(5.26–5.28)**	The Department agrees with the Auditor General's recommendation. As part of its departmental performance report to Parliament, the Department will incorporate relevant measures from the annual assessment of our Management Accountability Framework completed by the Treasury Board Secretariat. More broadly, the Department has implemented a number of changes to its annual reports on plans and priorities and departmental performance reports in an effort to improve reporting to Parliament and the public on the results of departmental initiatives and priorities. Also, as part of its efforts to improve reporting, the Department has implemented a practice whereby a committee of performance measurement specialists within the Department, as well as one external adviser, assess the quality of data used to arrive at management's assessments of the degree to which the Department is achieving its priorities each year. The results of these reviews are reported in the departmental performance report.
Quality assurance	
5.62 Justice Canada should develop a quality management system or systems for each of its practices to provide senior management with ongoing and reliable assurance that all services meet established minimum quality standards. **(5.30–5.61)**	The Department agrees with the Auditor General's recommendation and will build on the elements of its quality work recognized by the Office of the Auditor General with a view to having a sound quality management approach.

Recommendation	Response
Resource management	
5.93 Justice Canada needs to make improvements to its resource management. The Department should • use management information on workload volumes and costs for all of its legal services to better monitor trends, plan, set priorities, manage resources, analyze service delivery options, and identify opportunities for controlling costs; • work with client departments to effectively plan, manage, and improve the cost-effectiveness of their financial arrangements with a view to managing demand for legal services and thereby reducing costs; and • ensure that a senior manager with the necessary authority leads the improvement of management practices at the Department and oversees implementation of these changes. **(5.63–5.92)**	The Department agrees with the Auditor General's recommendation. The Department of Justice Canada will continue the work underway to develop approaches to further develop its capacity to use management information to enhance management decisions, and regularize its cost recovery agreements with government departments. The Department is currently working on putting in place an initiative to better coordinate and integrate its law management practices. The Department will, at the same time, review its management practices to identify and put in place corporate reports to provide management information to support departmental decision making. Senior management authority to lead our work on management practices will be strengthened.

Report of the Auditor General of Canada to the House of Commons—May 2007

Main Table of Contents

	A Message from the Auditor General of Canada **Main Points—Chapters 1 to 7**
Chapter 1	Use of Acquisition and Travel Cards
Chapter 2	Federal Loans and Grants for Post-Secondary Education—Human Resources and Social Development Canada and Canada Millennium Scholarship Foundation
Chapter 3	Human Resources Management—Foreign Affairs and International Trade Canada
Chapter 4	Canadian Agricultural Income Stabilization—Agriculture and Agri-Food Canada
Chapter 5	Managing the Delivery of Legal Services to Government—Department of Justice Canada
Chapter 6	Modernizing the NORAD System in Canada—National Defence
Chapter 7	Management of Forensic Laboratory Services—Royal Canadian Mounted Police

CA1
AG
A55

2007



Report of the

Auditor General of Canada

to the House of Commons

MAY

Chapter 6

Modernizing the NORAD System in Canada—National Defence

Office of the Auditor General of Canada



2007



Report of the

Auditor General of Canada

to the House of Commons

MAY

Chapter 6

Modernizing the NORAD System in Canada—
National Defence

Office of the Auditor General of Canada

The May 2007 Report of the Auditor General of Canada comprises A Message from the Auditor General of Canada, Main Points—Chapters 1 to 7, and seven chapters. The main table of contents for the Report is found at the end of this publication.



The Report is available on our website at www.oag-bvg.gc.ca.

For copies of the Report or other Office of the Auditor General publications, contact

Office of the Auditor General of Canada
240 Sparks Street, Stop 10-1
Ottawa, Ontario
K1A 0G6

Telephone: 613-952-0213, ext. 5000, or 1-888-761-5953
Fax: 613-943-5485
Hearing impaired only TTY: 613-954-8042
Email: distribution@oag-bvg.gc.ca

Ce document est également publié en français.

© Minister of Public Works and Government Services Canada 2007
Cat. No. FA1-2007/2-6E
ISBN 978-0-662-45623-0

Chapter

6

Modernizing the NORAD System in Canada

National Defence

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Table of Contents

Main Points 1

Introduction 3

Background 3

Focus of the audit 5

Observations and Recommendations 5

Approval to modernize the NORAD system 5

There were early indications that the modernization project was in difficulty 6

National Defence had spent $65 million when the contract was terminated 7

National Defence chose to unilaterally develop its own air surveillance and control system 8

The Department stopped working on the MASE system to join a new US-led option 9

Replacing the NORAD system plus related expenses brings total costs close to $156 million 10

Anticipated savings have not been realized 10

Project management and oversight 11

The Statement of Operational Requirement has not been updated since 1997 11

Some key project management components have not been completed 13

National Defence did not inform the government of project scope changes in a timely fashion 14

Oversight would have increased by designating the modernization project a Major Crown Project 15

The Department did not take advantage of already existing controls to provide better oversight of this project 16

Construction of the above-ground complex 16

Costs and design have grown considerably since first approved 16

Use of the building is limited by design and construction irregularities 17

Conclusion 18

About the Audit 20

Appendix

List of recommendations 22



Modernizing the NORAD System in Canada

National Defence

Main Points

What we examined

Canada and the United States are partners in the air defence of North America under the North American Aerospace Defense (NORAD) agreement. Under this agreement, Canada and the US operate an integrated and interoperable air surveillance and control system to secure North American airspace. In 1997, the two countries agreed to upgrade and modernize this system. Originally, the Canadian government approved funding for about $93 million to modernize the Canadian portion of the NORAD system—the Canadian Air Defence Sector Air Operations Centre. Since the original approval for modernization, the project has undergone several changes and cost increases. We examined how the modernization has progressed, what it has cost National Defence, and what has been delivered.

Why it's important

Heightened security demands since September 11, 2001, have put emphasis on the need to modernize the NORAD surveillance and control systems. National Defence has a significant investment in the modernization project and needs to implement it in a way that is cost-effective and ensures that operational requirements are met. In May 2006, Canada and the United States renewed the NORAD agreement to continue operations in both countries.

What we found

- Modernization was originally expected to cost National Defence $87 million, plus about $6 million for a definition phase, and was to be completed by 2001. However, we estimate that the Department has spent about $125 million so far, and bringing the modernization to completion is expected to cost another $18 million. Other related expenses of about $13 million will bring the expected total cost to about $156 million. The project took longer than planned to deliver and has cost more than initially expected because of problems with system development and project management. Recently, the Department successfully installed a new air surveillance and control system at its sector air operations centre, and it reports that the system is meeting initial operating requirements. However, anticipated savings of up to $16 million a year in personnel and operating costs have not materialized.

- Neither National Defence nor the government made appropriate use of mechanisms available for managing large, high-risk projects like this one. Early signs that the project was in trouble and that costs were climbing did not prompt moves to strengthen its oversight. We asked why, for example, a decision was not made at the time to designate this a Major Crown Project. Treasury Board Secretariat officials initially declined to provide us access to the working papers on this issue because they viewed these as cabinet confidences. At the conclusion of the audit and after a search, Treasury Board Secretariat officials assured us that there were in fact no Treasury Board Secretariat working papers to provide to us.
- Information provided to the government for increased project funding was not always timely or accurate, and did not always reflect the risks of the project or how its scope had changed.
- National Defence entered into an agreement with the United States Department of Defense as an equal partner, during the development phase of the first effort to implement a new air surveillance and control system, and on that basis it agreed to pay 50 percent of common costs. Yet it could not provide us with evidence to demonstrate that it had in fact shared control of the project. Later, problems appeared in the Department's ability to control its own development of a second, replacement air surveillance and control system, which it was working on for the Canadian Air Defence Sector. Work on this second system was stopped in favour of a third system developed for NORAD, mainly with US Department of Defense input into the requirements. This air surveillance and control system has now been installed and is operating at the Canadian Air Defence Sector air operations centre. Future modernization and upgrade work is planned, but National Defence still has not clearly set out its own Statement of Operational Requirement and needs to review requirements before continuing.

National Defence has responded. The Department agrees with our recommendations and is proposing actions to address concerns.

Introduction

6.1 Canada shares the defence of North American airspace with the United States through the North American Aerospace Defense Agreement (NORAD). NORAD is the foundation for Canadian–US aerospace defence cooperation. Its primary mission includes surveillance, detection, monitoring, validation, and warning of air attacks against North America. Since it was formally established in 1958, NORAD has evolved to meet a growing variety of security threats. In 1991, the NORAD mission was expanded to include counter-narcotics air surveillance operations. After the September 11, 2001 terrorist attacks, NORAD has increased its role in the security of internal domestic airspace.

6.2 NORAD is a combined command established by mutual agreement between Canada and the United States. Based on available information, NORAD provides warning and assessment of air threats to each nation's responsible authorities.

Background

6.3 NORAD air defences are built around a network of radars connected to a command and control system for tracking targets and deploying fighter jets to intercept and, if necessary, engage threats. NORAD command and control is based at the Cheyenne Mountain Operations Center in Colorado Springs, Colorado. Surveillance and control of North American airspace is conducted from Canada, the continental United States, and Alaska. Exhibit 6.1 shows the NORAD regions and sectors. The Canadian NORAD Region (CANR) Headquarters is in Winnipeg, and the sector air operations centre is at Canadian Air Defence Sector (CADS) in North Bay, Ontario, which provides the tactical command and control for Canadian airspace.

6.4 A crucial element of NORAD's network of sector air operations centres is the computerized air surveillance and control system. It displays data gathered from sensors located across North America and, when they are deployed, from surveillance and reconnaissance aircraft. Each sector's air operations centre relies on the computerized system to assist in processing information, identifying targets, and guiding interception to the targets. Critical information generated in North Bay is forwarded to CANR Headquarters in Winnipeg, and to the Cheyenne Mountain Operations Center in Colorado Springs.

6.5 NORAD began operating the AN/FYQ-93 (Q-93) system in 1983, at which time it was expected to last 20 years. In the

Exhibit 6.1 NORAD regions and sectors



NORAD is divided into three regions—the Canadian NORAD region, the Continental NORAD region (US) and the Alaskan NORAD region.

early 1990s, National Defence and the US Air Force began planning how to replace the Q-93 system at the end of its 20-year life span. As a partner in NORAD, Canada was involved in the decision to modernize and replace the system. However, initial plans and project scope for modernizing the NORAD computer system were not realized, and since that time, National Defence has been involved in developing two other replacement systems, one of which—the Battle Control System–Fixed or BCS-F—has recently become operational.

6.6 As part of the modernization, National Defence expected to generate savings. Some savings would be realized through a reduction in the number of personnel required to run the new air surveillance and control system. Further savings would be realized through a move from the existing underground complex in North Bay to a new, above-ground complex that would house the modernized system. Since 1995, costs to National Defence for modernizing the NORAD

computer system have amounted to about $125 million in spending on system development and new facilities. The Department estimates that another $18 million in expenses will be necessary to bring the project to completion, plus about $13 million in related costs.

Focus of the audit

6.7 Our audit examined the National Defence components of the project to modernize NORAD's Q-93, the air surveillance and control system, to determine whether capability improvements had been developed and installed, and whether they met Canadian capability requirements. The audit examined project management, costs, timelines, and what was delivered. We also examined whether project activities complied with government policies, directives, and guidelines.

More details on the audit objective, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Observations and Recommendations

Approval to modernize the NORAD system

6.8 The North American Aerospace Defense (NORAD) Canadian Air Defence Sector Air Operations Centre has recently installed the newly developed Battle Control System–Fixed (BCS-F), an air surveillance and control system. The contractor for BCS-F began installation at North Bay in early 2006, and the Canadian Air Defence Sector Air Operations Centre switched from the old system (Q-93) to BCS-F operations in October 2006.

6.9 BCS-F represents the third attempt by National Defence to install a modernized air surveillance and control system in the sector air operations centre, a process that has spanned almost 12 years. Work to replace the old system began in 1995 when the government approved $6.4 million in funding for National Defence to participate, in cooperation with the United States, in the definition phase of the Region/Sector Air Operations Centre Modernization Project. In 1996, a Memorandum of Understanding was signed between National Defence and the United States Department of Defense to jointly modernize NORAD's air surveillance and control system. The aim was to develop a common NORAD system that could improve the coverage of North American airspace. Throughout the project, the two countries would fund an equal share of their common costs; they would also have a shared software maintenance strategy. As equal

partners, Canada and the US were to share decision making, data rights, and industrial participation.

6.10 National Defence personnel and US Air Force personnel were assigned to the project management office to ensure that each partner's concerns and specific requirements were represented. A bi-national steering committee was set up to review progress and resolve any issues that might arise throughout the life of the project.

6.11 In February 1997, after completion of the project definition phase, the government approved the Department's request to spend $59.5 million on developing a new system. It was expected that the new system would be in place by September 1999 and that work to get it to full operational capability would continue until fall 2001. The Department supported its request for funding approval by showing that it expected to save about $16 million per year in operating costs. Savings were to begin around 2004, at which time the Department had planned to shut down its underground complex. The Department also anticipated a change in operations, with a reduction in personnel.

6.12 A few months later, the government gave approval, with conditions, to spend an additional $27.5 million on the following:

- a deployable capability study;
- an upgrade of the internal communications system; and
- construction of an above-ground complex to house the new air surveillance and control system, allowing National Defence to close the underground complex.

6.13 In total, it was expected that the modernization would cost National Defence about $87 million, in addition to the $6.4 million spent on project definition, but that the possible savings would allow the Department to have its investment paid back within four to five years after project completion.

6.14 In March 1997, a contract to develop the proposed new air surveillance and control system for NORAD was awarded to a US company, and development work began. Although a system concept was defined at this point in time, system development components and costs had not yet been clearly set out.

There were early indications that the modernization project was in difficulty

6.15 In early 1997, National Defence told the government that the risk of not completing the project was low. However, by July 1998, it became apparent that costs were escalating. The bi-national steering

committee was informed that projected costs for completing the modernization project were increasing. National Defence personnel, who were monitoring costs and overseeing progress, now considered it a high-risk project.

6.16 In February 1999, the Department requested an increase in funding to complete the modernization project. The Department reported that it was very confident that additional funds would enable the project to achieve operating capability, even though there were concerns at that time about the contractor's slow progress and escalating costs. National Defence received approval for an additional $36.7 million for this project, bringing the total expected cost for the modernization to about $130 million at that time.

6.17 We noted that the government had expected the Department to demonstrate progress on the modernization project and that funding would be approved in two phases. Funding for the second phase was conditional upon successfully achieving the first phase. However, because of delays and cost overruns, the government approved a change in project scope so that money set aside for phase two could be spent on continuing phase one in order to achieve core operational requirements, even though there was no evidence that the first phase was successfully achieving objectives. Hardware and software modules were not ready and significant development remained to be done.

6.18 In October 1999, despite assurances from the Department that increased funding would enable the modernization project to succeed, the contract for developing a new system was cancelled by the US Department of Defense. Concerns that progress was slow, along with cost projections that were more than triple the initial expected project completion costs, led the US Department of Defense to halt any further work.

National Defence had spent $65 million when the contract was terminated

6.19 National Defence has estimated that it had spent $65 million on this contract and on other related expenses by the time the project was terminated. Our review found that the Department had paid about $57 million for contractor development work, and that the Department's other project management costs brought the total to about $65 million. Despite its $65-million investment, the Department was left with the same system and operations that it had had before. The Department did receive about $1.5 million in hardware, as stipulated in the contract. Some of this hardware was used for training, and some remained in storage.

6.20 Department documents indicated that despite its 50–50 partnership in this project, and notwithstanding concerns about its difficulties, National Defence did not believe it could stop the process sooner or pursue an alternative course of action.

6.21 During this time, National Defence was also upgrading its internal communications system. The Department put that work on hold when the air surveillance and control system development contract was terminated. It had spent about $7.7 million on upgrades when the work was stopped. The Department was able to derive some benefit from this previous work when the internal communications systems work was later continued.

National Defence chose to unilaterally develop its own air surveillance and control system

6.22 After the contract was terminated in 1999, NORAD officials determined that the AN/FYQ-93 (Q-93) air surveillance and control system would not be replaced immediately, and that NORAD could continue to use it until 2009. Nevertheless, National Defence informed NORAD that it needed to save money, and that it therefore still planned to move its operations to a new above-ground complex, reducing personnel in the process. Although the Memorandum of Understanding with the US stated that both countries would jointly develop an interoperable air surveillance and control system, National Defence decided to develop and install its own system in the above-ground complex, as a short-term solution until a NORAD-wide system could replace it. In part, National Defence questioned the long-term viability of the Q-93 system at its sector air operations centre, and was concerned that a lack of spare parts might prevent Q-93 from remaining operational and reliable until 2009.

6.23 At the time of our audit, we found no issues related to spare parts shortages affecting Q-93 system operations. An analysis conducted by the Department in 2000 forecast that enough spare parts would be available to keep the system operational until 2010.

6.24 In September 2000, National Defence chose NATO's Multiple AEGIS Site Emulator (MASE) system. It planned to modify MASE to be compatible with the Q-93 system, which was still in use in the US. The Department began working on MASE system development and entered into agreements with other agencies to modify the system. However, it did not submit a request for increased spending authority to the government until June 2003, nor did it seek approval to change the scope of the project. We found that internal delays slowed the

approval process. The Department initially expected to have a viable system ready by fall 2003, but by the time the submission was made to the government, the date had slipped to July 2004.

6.25 The Department supported its MASE-led approach with possible reductions of about 30 to 40 percent in operations and maintenance staff. The Department forecast that these reductions would lead to savings on the order of $10 to $12 million annually. It told the government that modifying the MASE system was a medium- to high-risk strategy for replacing the Q-93 system. In June 2003, the government gave approval to increase the funding to about $143 million (GST excluded). This was done in order to allow modification work to continue on the MASE system and to provide funding for other ongoing project requirements, such as the construction of the above-ground building. The government stipulated at this time that National Defence was to begin submitting annual reports on

- progress,
- changes in costs and schedules, and
- updates on how risks were being managed.

6.26 Exhibit 6.2 shows the project costs that were expected as of June 2003.

Exhibit 6.2 Expected Project Costs, June 2003

Project Costs	Initial Estimated Cost 1997	June 2003 Estimated Cost
Project definition	$6.4 million	$6.4 million
System replacement	$59.5 million	$136.6 million
Canadian unique requirements	$27.5 million	
TOTAL	**$93.4 million**	**$143.0 million**

The Department stopped working on the MASE system to join a new US-led option

6.27 Although it was working to modify the Multiple AEGIS Site Emulator (MASE) system, National Defence remained committed to a bi-national air surveillance and control system for NORAD. Shortly after receiving approval for its MASE-led solution, National Defence was approached by the US Air Force to participate in the development of the Battle Control System– Fixed (BCS-F) as the NORAD-wide system. In January 2004, senior management decided that the Department would join the BCS-F option, but would continue

working on the MASE system as a fallback, should BCS-F prove unworkable. However, by mid-2005, it had become clear that problems with modifications to the MASE system would be difficult to overcome and that target dates would not be met; however, BCS-F was progressing. Therefore, National Defence stopped work on the MASE system to instead pursue BCS-F as the system for NORAD. It was expected that the BCS-F system would be installed, tested, certified, and operational at the sector air operations centre by early 2006.

6.28 The Department estimated that it would spend about $13 million to install and test the BCS-F system. It did not request an increase in spending authority from the government, because MASE system expenses were proving to be considerably lower than initially anticipated, and because the Department believed that, with the funds remaining, BCS-F system costs could be absorbed into the already approved $143 million.

6.29 The Canadian Sector Air Operations Centre began using the BCS-F system in October 2006, and is currently operating that system with the rest of NORAD.

Replacing the NORAD system plus related expenses brings total costs close to $156 million

6.30 At the time of our audit, we found that the Department had spent about $125 million of the approved $143 million for this project. Further expenses of about $18 million were expected for ongoing work to finalize this part of the modernization project. We found other costs that had been incurred by the Department as a direct result of this project, but that had been funded separately. These costs were incurred at several stages: during construction of the above-ground building at North Bay, at the time that the systems were moved from the underground facility to the above-ground building, and after the system was installed. Ensuring security of the facilities was expected to incur further expenses. However, no cost estimate was available to us at the time of this audit. We estimate that total costs for modernizing the NORAD system in Canada will amount to about $156 million.

Anticipated savings have not been realized

6.31 Despite expectations that there would be savings of as much as $16 million annually by 2004, at the time of this audit, the modernization project had not been able to demonstrate that any savings have been made or will be made. The Department based its projected savings on analyses that included closing the underground

complex, building a small above-ground operations centre, and reducing personnel requirements. However, at the time of our audit in early 2007, we found that

- the underground complex remained open for operational reasons, thus incurring the expenses necessary to keep it functional and safe;
- the above-ground complex has grown from the small operations centre envisioned in 1998 to the current larger two-storey building; and
- the Department has not yet been able to determine whether it will have any reductions in operational personnel under the new system.

6.32 Recommendation. National Defence should update its analysis of the NORAD system modernization project's expected savings, and should determine when such savings will be realized.

The Department's response. Agree. In response to a meeting of the Senior Review Board conducted on 11 December 2006, the business case for the Region/Sector Air Operations Centre Modernization Project was updated on 15 February 2007. As a significant portion of the original business case was predicated on the possible relocation of the operational elements, much of the infrastructure-related savings originally envisioned will not be realized. The current savings projections are approximately 18 percent of the original 1996 business case estimate; further studies on the actual savings are ongoing.

Although the underground complex has been declared surplus and is currently moving through the surplus property process, two additional challenges have impacted plans for closure of the underground complex. First, the underground complex has been identified as a heritage site. This will entail providing a minimal level of support to the underground complex until a permanent solution is found. Second, due to residual security concerns, a small number of systems have yet to be moved from the underground complex. This should be rectified over the next few months.

Project management and oversight

Statement of Operational Requirement—A mandatory National Defence project document that describes the characteristics of the operational requirements to be used by technical and procurement staff. It contains critical performance criteria for evaluating technical options and system performance

The Statement of Operational Requirement has not been updated since 1997

6.33 In 1997, National Defence drafted a **Statement of Operational Requirement** that outlined its needs for modernizing the North American Aerospace Defense (NORAD) system. A Statement of Operational Requirement is a mandatory document for all National Defence equipment projects. It defines expectations and guides

decision making. National Defence policy requires that statements of operational requirement be updated as a project progresses and as requirements change. We expected that the Department would have reviewed the 1997 Statement of Operational Requirement as its policy requires, and before proceeding with other options.

6.34 However, we found that the Statement of Operational Requirement document has not been updated since 1997, even though

- NORAD's responsibilities have changed since 1997;
- advances in information technology since 1997 may have changed the risks or created new opportunities that are not addressed in the original Statement of Operational Requirement; and
- the bi-national partner for this modernization, the US Air Force, has twice updated its version of a Statement of Operational Requirement.

6.35 We found that because National Defence had proceeded with the Multiple AEGIS Site Emulator (MASE) system development and with acquisition of the Battle Control System–Fixed (BCS-F) system without first re-examining its own Statement of Operational Requirement, it did not have an updated assessment of its needs. It was therefore unable to provide us with assurance that the systems would perform as needed, and was also not positioned to evaluate future system performance. As modernization and upgrades continue for the Canadian Air Defence Sector, an updated Statement of Operational Requirement is a key element for guiding the department's further analysis and decision making.

6.36 Recommendation. National Defence should ensure that any further modernization and upgrade of Canada's air surveillance and control system is supported by a current and clearly defined Statement of Operational Requirement.

The Department's response. Agree. Canada and the US have continued to evolve the system modernization requirements over time. With the full participation of Canada in earlier NORAD requirements documents, our requirements were incorporated into the Battle Control System Operational Requirements Document and the System Capabilities Document. In addition, as the Department determines the need for follow-on effort, all capability deficiencies will be validated as part of the Statement of Requirements for the Canadian Air Defence Sector Upgrade Project.

Some key project management components have not been completed

6.37 We examined the process followed by the Department to manage modification of the MASE system. The Department had entered into agreements with other agencies to modify the software, but did not identify start and end dates for the work. As a result, the work was not treated as a priority by the other agencies, despite National Defence timelines, and project completion was postponed.

6.38 We examined whether the Department had analysed options and assessed cost and feasibility. Government policy, along with generally accepted good management practices, require that both the expected benefits of any system and its estimated life cycle costs be analysed and included in the decision-making process. While few options may have existed for National Defence as a NORAD partner other than to accept the BCS-F system as its sector air operations centre system, we nevertheless expected the Department to have identified system benefits, as well as any associated risks, and to have assessed future costs. The Department could not provide us with evidence that it had done this analysis.

6.39 We expected that the Department would have a business continuity plan for its system operations, as required under the Government Security Policy. A business continuity plan is developed by assessing the threats and risks that could disrupt critical services. It identifies what needs to be done to protect against system failures. Although we did observe that some steps had been taken by the Department to protect against events such as a major power failure, we also expected to see a planned response, on the part of the Department, to a major disruption. Such a planned response would identify which systems take priority and the need for system back-up and system redundancy. National Defence was unable to provide us with a business continuity plan that addressed these key elements.

6.40 Recommendation. The Department should conduct a threat and risk assessment for the air surveillance and control system, to determine the extent to which the Department will provide system back-up and redundancy, and to develop a business continuity plan as necessary.

The Department's response. Agree. The Department agrees that threat risk assessments and business continuity plans are important and necessary. For the Region/Sector Air Operations Centre project, a threat risk assessment was prepared for the first system and revised for the MASE system. For the current BCS-F system, a threat risk assessment is being performed as part of the Department of Defence

Information Technology Security Certification and Accreditation Process. Within this certification and accreditation process, back-ups, redundancy, and continuity will all be addressed. The requirement for site redundancy will be further examined under the Canadian Air Defence Sector Upgrade Project.

National Defence did not inform the government of project scope changes in a timely fashion

6.41 Government policy requires departments to seek authority from government before changes are made to a project in areas that affect the project's scope, such as key deliverables, risk management, timing, contracting strategy, special requirements, and project management. We found that over the course of the modernization project, the Department did not officially inform the government in a timely way of significant changes in some of these areas.

6.42 We found that although government approval of the project called for a joint effort to share in the development, acquisition, and software maintenance of a new air surveillance and control computer system common to Canada and the US, the Department acted unilaterally to modify the MASE system for its own use. The decision by National Defence to change its key deliverable and adapt the MASE system was made in 2000. However, the Department did not officially inform the government of this decision until 2003. The Department has informed us that government officials were "informally" notified in October 2000 of this change.

6.43 We examined whether this decision resulted in a change to the deliverable, the timing, and the contract strategy. Government officials informed us that the decision was considered to change only the delivery method. They stated that since the ultimate goal was to replace the Q-93 system, the decision to adopt MASE did not represent a change in project scope that would require government approval. It is our view that National Defence did, in fact, change the scope of the project, from developing a bi-national system in common with the US, to implementing a short-term solution for Canada alone.

6.44 Despite the fact that, according to the Department, the project's risks were changing, we were not provided with evidence that this was communicated to the government in a timely way.

6.45 The Department had estimated that implementing its MASE system solution would cost an additional $9.5 million. Officials maintained that the Department retained the authority to proceed with the implementation, because costs were within the already

approved spending authority (that is, within the amount remaining after approximately $65 million had been spent on the cancelled contract), and because the Department's approach still fell within the general scope of modernizing the NORAD system. Ultimately, expenses were considerably lower than planned—about $440,000—due to problems delivering the MASE modifications.

6.46 In the Memorandum of Understanding signed with the US, Canada was to be an equal partner in the joint development of an interoperable air surveillance and control system, sharing the common costs, the decision making, the data rights, and the participation of industry. When the Department joined in the acquisition of the BCS-F system, it did not inform the government of this change in scope from being a partner to becoming a customer buying a product developed mainly from US Air Force stated operational requirements.

Oversight would have increased by designating the modernization project a Major Crown Project

6.47 Given the cost escalations, delays, and risks, we found that sufficient warnings were available to the Department and the government to consider designating the modernization project a **Major Crown Project**. Government policy on Management of Major Crown Projects identifies costs, risks, and a department's capacity to manage a project as key factors in determining whether it should be designated a Major Crown Project. Such a designation would have required National Defence to conform to a more defined and rigorous structure for reporting to the government. In 1998, National Defence officials asked Treasury Board Secretariat officials whether the modernization should be designated a Major Crown Project. The modernization was not designated a Major Crown Project, but Treasury Board Secretariat officials initially declined to provide us with their working papers setting out the reasons for this decision, because they viewed these as cabinet confidences of a type that were excluded from our right to access under a 1985 Order in Council. At the conclusion of our audit, Treasury Board Secretariat officials assured us, following a search, that working papers on this topic did not in fact exist. Accordingly, we are unable to assess the rigour and quality of the government's oversight.

A project may be designated a **Major Crown Project** when the estimated cost of the project will exceed $100 million, and when it is assessed as being high risk. Projects that have a total expected cost of less than $100 million, but that are assessed as high risk, may be designated as Major Crown Projects by the government.

6.48 National Defence management policy states that increased senior management scrutiny is required for Major Crown Projects. Although this project was under scrutiny by a senior review board at the Department, we found that the board met only once a year, which is the minimum requirement under the Department's defence management system. Had the modernization been designated a Major

Crown Project, the project would have been required to report to a Special Project Advisory Committee. As well, the Statement of Operational Requirement would have been passed to the Joint Capability Requirement Board (made up of the chiefs of the Army, Navy, and Air Force staff, along with the Assistant Deputy Ministers) for endorsement.

The Department did not take advantage of already existing controls to provide better oversight of this project

6.49 The Department's Assistant Deputy Minister (Information Management) is the National Defence authority for information technology projects and initiatives. Each National Defence service (Army, Navy, Air Force) is responsible for development of projects categorized as weapons system projects, and each may ask the Assistant Deputy Minister (Information Management) for advice if need be. Because National Defence categorized the modernization project as a weapons system for sector air operations, the project's development remained under the control of the Air Force.

6.50 Although it is clear that the Air Force is best positioned to state what it needs for NORAD operations, the Assistant Deputy Minister (Information Management) is concerned with the development of all information technology systems in the Department and oversees how they integrate with each other. The Assistant Deputy Minister (Information Management) recommended that the **C4ISR Oversight Committee** monitor the modernization project, because the new air surveillance and control system would have to integrate with other defence systems, and recommended that the modernization project not be managed independently. Although senior management noted these concerns, the Department did not submit the project to the Oversight Committee as recommended.

C4ISR stands for command and control, communications, computing, intelligence, surveillance, and reconnaissance. National Defence created the **C4ISR Oversight Committee** in 1999 to respond to the need for more coordination of requirements. The Committee provides a strategic perspective and leadership on all C4ISR related matters.

Construction of the above-ground complex

Costs and design have grown considerably since first approved

6.51 National Defence originally planned to build an above-ground complex that was much smaller than the current building. Initially, in spring 1998, the Department proposed to the Minister that it would build a small (4,500 square metre) operations centre for about $6 million. Shortly thereafter, however, the Department recognized that it had underestimated space requirements in its initial business case. The Department then made revisions that expanded the size of the proposed building to about 7,000 square metres, a change that would raise the cost to about $9 million. Later, in October 1998, as part of an effort to reduce infrastructure at the Canadian Forces Base

at North Bay, plans for the building changed. Originally conceived as a small operations centre, it would now be a larger (9,560 square metre) two-storey building large enough to house the majority of operations on the base. Costs for the new plans were estimated at $12 million. This estimate was later revised to $18 million. When the contract for the first air surveillance and control system development was cancelled in 1999, National Defence put the building construction on hold.

6.52 In 2003, after the Department decided that it would install a modified version of the Multiple AEGIS Site Emulator (MASE) system as a temporary NORAD system, the Department started construction on the 9,560-square-metre complex. By this time, construction costs had increased to about $23.9 million, and we estimate that at the time of this audit the costs were close to $28 million. We also found other costs that resulted from the new construction, but that were not included in the Department's building costs. Examples of such expenses are costs for moving systems into the new building and costs related to site security. We estimate that overall, National Defence will spend about $38 million on expenses related to the above-ground complex, for constructing it, moving into it, and addressing some of the facility's other requirements.



New above-ground complex at Canadian Air Defence Sector, North Bay, Ontario

Source: Department of National Defence

6.53 The Department supported moving into an above-ground building by stating that doing so would generate savings. The Department cited these potential savings as part of the rationale for pursuing development of the MASE system. However, we were not provided with evidence showing how savings were calculated or how costs would be reduced despite the growth in size of the building.

Use of the building is limited by design and construction irregularities

6.54 We found that planning and approval for the construction of the building had proceeded without a clear understanding of the operational requirements. Originally, the building was designed to accommodate the replacement for the old Q-93 system. Later, it was decided that the building would also house most of the base operations. As built at present, the above-ground complex cannot accommodate base operations as originally planned. There are now concerns about the extent to which the base can decommission other buildings and reduce its infrastructure.

6.55 We found that the Department had not completed a review of the building security requirements prior to construction. National Defence requires that a security review checklist be completed for new buildings, to ensure that security concerns are identified and

addressed. Department officials told us that due to time and budget constraints, this step was not taken. Several security concerns did arise during construction that have led to questions about the building and the subsequent feasibility of operating in it. These questions specifically concern

- the blueprints and purpose of the building, which were placed in the public domain when they were made available to interested contractors;
- the physical control of the building and access to the site during construction, which were limited; and
- the workers on site, none of whom were security cleared to work there.

6.56 As a result, the Department is currently examining any extra steps it must take to ensure that the building can be used for the purposes intended, and to determine the necessary costs. At the time of this audit, the Department had not yet decided on its course of action, and hence was not able to provide us with this assessment.

6.57 As a result of concerns over the facilities in the above-ground building, the Department has had to maintain some operations in the underground complex longer than expected. At the time of this audit, despite plans to save costs by closing the underground complex and operating out of one facility above ground, National Defence was still operating both facilities.

Conclusion

6.58 Because of the way this modernization project was structured and managed, it has cost National Defence significantly more than originally planned. Decisions were made without complete information or an understanding of real savings. We found that projected savings are not being realized, and that costs for the construction of the sector air operations centre, and for developing and installing a new air surveillance and control system in the Canadian Air Defence Sector, are almost double the original estimate.

6.59 We examined whether government policies, directives, and guidelines were followed by the Department as it replaced the old AN/FYQ-93 (Q-93) system. We found that the Department did not report on project difficulties or changes in scope in a timely way. This, in our opinion, contributed to the modernization project having less

oversight than would be expected for a project entailing such cost, risk, and complexity. We found as well that some information presented to decision makers about the progress of the modernization project did not adequately portray the risks. There were early indicators that the project was experiencing significant cost overruns, and that it was failing to deliver the intended product—an operational air surveillance and control system. Sufficient indicators were evident to warrant more oversight by the Department and by the government. There were also several indicators that this project would have benefited from being designated a Major Crown Project.

6.60 We also examined whether the new system met National Defence requirements for air surveillance, but we found that the Statement of Operational Requirement had not been updated to reflect a review of the current environment or of the options. While we recognize that North American Aerospace Defense (NORAD) is a bi-national arrangement that requires compatibility of systems and operations, we nevertheless expected that National Defence would have demonstrated that its requirements were being met, by clearly identifying what those requirements were and how the Battle Control System–Fixed (BCS-F) system responds to them.

6.61 We examined whether the construction of the above-ground complex was supported by a sound rationale and business case. We found that the intended purpose for the building changed over the course of the project. It was originally planned to be a small operations centre, but it grew to be a larger facility. Part of the rationale for this construction was to save costs, but we found that the Department could not provide us with evidence to support how it had determined that there would be savings, how the changes to the building continued to support operational savings, or when savings would be realized.

6.62 We are concerned that the Department is proceeding with the modernization of its air surveillance and control system without having clearly reviewed the Statement of Operational Requirement needed to help define the necessary characteristics of the system, and to guide the evaluation and performance standards of the system. The Department has not completed a business analysis that scrutinizes all costs as it moves forward. Nor has it prepared a business continuity plan. We are concerned by the fact that a statement, analysis, and plan are not yet in place, because the Department is forecasting further expenditures. These expenditures will be incurred for future components of the new air surveillance system. The Department has identified a project to examine this—the Canadian Air Defence Sector Upgrade Project.

About the Audit

Objectives

The objective of this audit was to assess National Defence's development, implementation, and costs for modernizing the air surveillance and control system operated by the sector air operations centre under the North American Aerospace Defense(NORAD) agreement. Specifically, we assessed to what extent National Defence

- complied with government policies, directives, and guidelines in managing project costs, timelines, and delivery;
- complied with government's policy and with its own policy on risk management in developing systems to replace the old AN/FYQ-93 (Q-93) system;
- had a sound rationale for building an above-ground complex for housing a new air surveillance and control system to replace Q-93; and
- analyzed options to ensure that the proposed replacements for the Q-93 system do in fact meet the NORAD and Canadian NORAD Region (CANR) operational requirements for the defence of North America.

Scope and approach

We conducted our audit at National Defence Headquarters, and we conducted field visits to the Cheyenne Mountain Operations Center (CMOC) in Colorado Springs, the CANR Headquarters in Winnipeg, and the Canadian Sector Air Operations Centre (SAOC) located at 22 Wing in North Bay.

The audit team interviewed personnel responsible for the project at National Defence Headquarters. The team also interviewed personnel in the following groups: Assistant Deputy Minister (Information Management), Assistant Deputy Minister (Materiel), Assistant Deputy Minister (Policy), Assistant Deputy Minister (Infrastructure and Environment), Assistant Deputy Minister (Finance and Corporate Services), and Chief of the Air Staff. At each of these organizations, the audit team examined relevant files and documents. We interviewed personnel at the Cheyenne Mountain Operations Center in Colorado Springs, at the Canadian NORAD Region headquarters, and at the Sector Air Operations Centre.

Expenditures were tracked using data from the Financial Management and Accounting System and from department reports.

We attempted to reach a clear understanding of the Regional/Sector Air Operations Centre (R/SAOC) Modernization Project. We examined project management, costs, and timelines.

All government funding approvals exclude the Goods and Services Tax (GST).

Criteria

We expected that National Defence would do the following:

- Comply with government policies, directives, and guidelines for contracting;
- Have a completed option analysis and approved plans for addressing capability deficiencies as a way of meeting the requirements of the modernization project and the NORAD mission;
- Demonstrate the savings realized by moving to the above-ground complex; and
- Have analyses that support the decision to move the NORAD installation into the above-ground complex.

Audit work completed

Audit work for this chapter was substantially completed in January 2007.

Audit team

Assistant Auditor General: Hugh McRoberts
Principal: Wendy Loschiuk
Lead Director: Pierre Hamel
Director: Tony Brigandi
Director: Daniel Thompson
Audit Project Leader: Craig Millar

For information, please contact Communications at 613-995-3708 or 1-888-761-5953 (toll-free).

Appendix List of recommendations

The following is a list of recommendations found in Chapter 6. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Approval to modernize the NORAD system	
6.32 National Defence should update its analysis of the NORAD system modernization project's expected savings, and should determine when such savings will be realized. (6.8–6.31)	Agree. In response to a meeting of the Senior Review Board on 11 December 2006, the business case for the Region/Sector Air Operations Centre Modernization Project was updated on 15 February 2007. As a significant portion of the original business case was predicated on the possible relocation of the operational elements, much of the infrastructure-related savings originally envisioned will not be realized. The current savings projections are approximately 18 percent of the original 1996 business case estimate; further studies on the actual savings are ongoing. Although the underground complex has been declared surplus and is currently moving through the surplus property process, two additional challenges have impacted plans for closure of the underground complex. First, the underground complex has been identified as a heritage site. This will entail providing a minimal level of support to the underground complex until a permanent solution is found. Second, due to residual security concerns, a small number of systems have yet to be moved from the underground complex. This should be rectified over the next few months.
Project management and oversight	
6.36 National Defence should ensure that any further modernization and upgrade of Canada's air surveillance and control system is supported by a current and clearly defined Statement of Operational Requirement. (6.33–6.35)	Agree. Canada and the US have continued to evolve the system modernization requirements over time. With the full participation of Canada in earlier NORAD requirements documents, our requirements were incorporated into the Battle Control System Operational Requirements Document and the System Capabilities Document. In addition, as the Department determines the need for follow-on effort, all capability deficiencies will be validated as part of the Statement of Requirements for the Canadian Air Defence Sector Upgrade Project.

Recommendation	Response
6.40 The Department should conduct a threat and risk assessment for the air surveillance and control system, to determine the extent to which the Department will provide system back-up and redundancy, and to develop a business continuity plan as necessary. **(6.37–6.39)**	Agree. The Department agrees that threat risk assessments and business continuity plans are important and necessary. For the Region/Sector Air Operations Centre Project, a threat risk assessment was prepared for the first system and revised for the MASE system. For the current BCS-F system, a threat risk assessment is being performed as part of the Department of Defence Information Technology Security Certification and Accreditation Process. Within this certification and accreditation process, back-ups, redundancy, and continuity will all be addressed. The requirement for site redundancy will be further examined under the Canadian Air Defence Sector Upgrade Project.

Report of the Auditor General of Canada to the House of Commons—May 2007

Main Table of Contents

A Message from the Auditor General of Canada
Main Points—Chapters 1 to 7

Chapter 1 Use of Acquisition and Travel Cards

Chapter 2 Federal Loans and Grants for Post-Secondary Education—Human Resources and Social Development Canada and Canada Millennium Scholarship Foundation

Chapter 3 Human Resources Management—Foreign Affairs and International Trade Canada

Chapter 4 Canadian Agricultural Income Stabilization—Agriculture and Agri-Food Canada

Chapter 5 Managing the Delivery of Legal Services to Government—Department of Justice Canada

Chapter 6 Modernizing the NORAD System in Canada—National Defence

Chapter 7 Management of Forensic Laboratory Services—Royal Canadian Mounted Police

Government Publications
CA1 AG A55

2007



Report of the Auditor General of Canada to the House of Commons

MAY

Chapter 7
Management of Forensic Laboratory Services—
Royal Canadian Mounted Police

Office of the Auditor General of Canada



2007



Report of the

Auditor General of Canada

to the House of Commons

MAY

Chapter 7

Management of Forensic Laboratory Services—
Royal Canadian Mounted Police

Office of the Auditor General of Canada

The May 2007 Report of the Auditor General of Canada comprises A Message from the Auditor General of Canada, Main Points—Chapters 1 to 7, and seven chapters. The main table of contents for the Report is found at the end of this publication.



The Report is available on our website at www.oag-bvg.gc.ca.

For copies of the Report or other Office of the Auditor General publications, contact

Office of the Auditor General of Canada
240 Sparks Street, Stop 10-1
Ottawa, Ontario
K1A 0G6

Telephone: 613-952-0213, ext. 5000, or 1-888-761-5953
Fax: 613-943-5485
Hearing impaired only TTY: 613-954-8042
Email: distribution@oag-bvg.gc.ca

Ce document est également publié en français.

© Minister of Public Works and Government Services Canada 2007
Cat. No. FA1-2007/2-7E
ISBN 978-0-662-45624-7

Chapter

7

Management of Forensic Laboratory Services

Royal Canadian Mounted Police

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Table of Contents

Main Points 1

Introduction 3

Previous audits and allegations 7

Focus of the audit 7

Observations and Recommendations 8

Timeliness of service 8

For the most part the FLS does not meet its own turnaround targets for completing service requests 8

Average turnaround time has improved for service requests in all disciplines except Biology 11

Only about half the clients we surveyed said that the service was timely 12

The FLS is not prioritizing cases as described to the parliamentary standing committee 14

Backlog is a major cause of longer turnaround times in Biology 16

Additional resources have not made service more timely in Biology 17

Quality of lab results 19

The labs have a quality management system in place 19

The quality assurance program failed to identify some quality issues 20

The FLS did not follow adequate procedures for project planning and implementation 24

Client consultation 26

Clients lack opportunity to influence how the FLS operates 26

The FLS does not usually negotiate the due date for service requests 27

Performance reporting 28

Performance reporting has not improved 28

Conclusion 29

About the Audit 33

Appendices

A. Recommendations arising from past audits of forensic services 36

B. List of recommendations 37



Management of Forensic Laboratory Services

Royal Canadian Mounted Police

Main Points

What we examined

The Forensic Laboratory Services (FLS) of the Royal Canadian Mounted Police (RCMP) provides forensic analysis services for criminal cases to Canada's law enforcement community, which includes Canadian police agencies, Crown counsel, and other federal, provincial, and municipal agencies. It operates laboratories in six cities across Canada.

In 2005, the House of Commons Standing Committee on Justice and Human Rights, Public Safety and Emergency Preparedness heard conflicting testimony on the performance of the Forensic Laboratory Services. The Committee subsequently asked the Auditor General of Canada to audit the performance of the FLS, and the status of DNA cases and service requests. We examined the timeliness of service delivery by the FLS, the quality management system, consultation with clients, and performance reporting to Parliament. We did not audit the quality of the forensic science and offer no opinion, positive or negative, on the validity of scientific analysis used.

Why it's important

The RCMP's Forensic Laboratory Services is the main provider of forensic analysis for most police agencies and courts in Canada. Forensic labs are an important element of the criminal justice system. Investigators and prosecutors rely on forensics to help identify or eliminate suspects and to provide evidence that can withstand scrutiny in court. Delays in obtaining results of forensic analysis can slow police investigations and leave criminals on the street to re-offend.

What we found

- For the most part the FLS does not meet its own turnaround targets for completing service requests. Although it can process urgent service requests in less than 15 days, they account for only 1 percent of all service requests. In the remaining 99 percent categorized as routine, the FLS is unable for the most part to meet the 30-day target it has set for them. While average turnaround times have improved for all other types of analysis, for DNA analysis requests they have worsened—from 91 days in 2003–04 to 114 days in 2005–06—despite increased spending and additional staff. The backlog of DNA requests is a major contributor to the long turnaround times.

- Although the labs now have a national quality management system in place, in practice there are significant weaknesses in how the FLS defines, records, monitors, and resolves quality issues (situations where there is a concern that the validity of forensic work is unreliable for any reason), including those related to lab results. Furthermore, the national quality management system failed to identify problems with the new automated process for DNA analysis. At the conclusion of our audit work, the FLS quality management system was not functioning as designed and could not provide assurance of quality to senior management.
- The RCMP does not give clients—police forces and prosecutors—adequate opportunity to influence how the FLS operates. For example, clients told us that although the RCMP conducts client visits, it consults them very little on their needs regarding matters such as changes to the labs' services, priorities, and service standards. Clients have little opportunity to negotiate turnaround times for service requests, and a recent change in policy gives them little say in the number of exhibits they are allowed to submit—no more than eight with each request.
- Although its new Laboratory Information Management System enables it to examine the performance of the FLS, the RCMP is not keeping its commitment to report to Parliament on performance; nor is it reporting to clients on FLS performance.

The RCMP has responded. The RCMP agreed to our recommendations and is preparing action plans to address them.

Introduction

7.1 Through its Forensic Laboratory Services (FLS), the Royal Canadian Mounted Police (RCMP) provides forensic analysis services to Canada's law enforcement community, including police agencies, Crown counsel, and other federal, provincial, and municipal agencies.

7.2 The FLS is a national laboratory service operating at six sites located in Halifax, Ottawa, Winnipeg, Regina, Edmonton, and Vancouver. It provides a range of forensic analysis services relating to criminal cases, chiefly in the disciplines of Biology, Toxicology, Firearms, Trace Evidence, and Counterfeit and Document Examinations (Exhibit 7.1).

7.3 Other FLS services include a Break and Enter DNA processing unit; a national Breath-Test Program; an Integrated Ballistics Identification System to better link bullets to crime scenes; an explosives laboratory; a laboratory that analyzes unknown substances; and diamond profiling research, which will assist in combatting organized crime by determining the source and identity of a diamond. The FLS does not provide services related to fingerprints, computer analysis, or chemistry of illicit drugs. It also does not perform autopsies.

7.4 Not every site provides a full range of services. Furthermore, the FLS does not serve the entire law enforcement community: the provinces of Quebec and Ontario operate their own forensic laboratories, and the Vancouver Police Department operates its own forensic firearms laboratory.

Exhibit 7.1 FLS provides a range of forensic analysis services relating to criminal cases

Discipline	Type of service
• Biology	DNA analysis
• Toxicology	Detection of drugs and alcohol in bodily fluid and tissue
• Firearms	Firearms analysis to determine type of weapon, and to compare firearms cartridges with weapons Tool mark analysis to examine what tool may have been involved in a crime
• Trace evidence	Analysis of fibre, paint, glass, and explosives
• Bureau for Counterfeit and Document Examinations	Analysis of counterfeit and questioned documents

7.5 FLS headquarters in Ottawa provides overall management, with a national program manager responsible for each discipline. Other headquarters functions include operating the National DNA Data Bank and a quality assurance program.

7.6 According to FLS records, expenditures during the 2005–06 fiscal year amounted to $40.8 million ($25.2 million for salaries, $13.0 million for operations and maintenance, and $2.6 million for capital); its full-time staff numbered about 385 (Exhibit 7.2). The primary source of funding was the federal government, although the provinces and territories provided $5.7 million through Biology casework agreements.

Exhibit 7.2 Expenditures and staff, 2005–06 fiscal year

Expenditures	Staff	Actual $ (millions)
Case Receipt Unit	41	$2.5
Biology (including Evidence Recovery Unit)	110	$9.4
Toxicology	51	$4.0
Firearms	35	$2.9
Trace Evidence	31	$2.7
Bureau for Counterfeit and Document Examinations	20	$1.5
National DNA Data Bank	28	$2.6
Other (including administration, automated systems, quality assurance, and operational support)[1]	69	$15.4
Total	**385**	**$40.8**[2]

[1] The provinces/territories covered $5.7 million of the expenditures. Some of this amount was used for the National DNA Data Bank.

[2] Excludes $1.4 million from the British Columbia government for a large forensic analysis. Because of rounding, individual amounts do not add up to the total.

Source: Royal Canadian Mounted Police

7.7 In the 2005–06 fiscal year the FLS received approximately 8,300 cases, representing about 13,000 service requests. A single case may generate more than one service request, depending on the number of disciplines involved. Most service requests were for Toxicology, Biology, and Firearms analysis services (Exhibit 7.3). Amendments to the *Criminal Code* and the *DNA Identification Act* will broaden the types of offences entered into the National DNA Data Bank. Once the amendments come into force, FLS projections suggest that the number of cases received by the FLS could increase by more than 30 percent.

A case may involve more than one service request, each concerning evidence submitted to a particular discipline for analysis.

Exhibit 7.3 Toxicology, Biology, and Firearms accounted for most of the service requests received

Discipline	Service requests received in 2005–06
Toxicology	3,743
Biology	3,362
Firearms	3,031
Bureau for Counterfeit and Document Examinations	1,454
No-suspect Break and Enter	696
Trace Evidence	730
Total	**13,016**

Source: Royal Canadian Mounted Police

7.8 In the early 2000s the RCMP restructured the FLS to improve efficiency. Previously, six full-service laboratories operated separately, each serving a limited geographic area. Now they function as a single consolidated organization with several service delivery sites across Canada. The new model has a number of notable features:

- A Case Receipt Unit (CRU) at each laboratory provides a single point of contact with investigators, and can move cases between disciplines and laboratories.
- An Evidence Recovery Unit (ERU) conducts a one-time search of exhibits to recover all potential evidentiary material.
- A new case prioritizing system has been developed. The target is completion within 15 days for cases designated as urgent and 30 days for cases designated as routine.
- An off-the-shelf Laboratory Information Management System (LIMS) has been installed and customized. It ensures that staff members at different sites have access to the same case at the same time and that casework can be moved from one site to another.

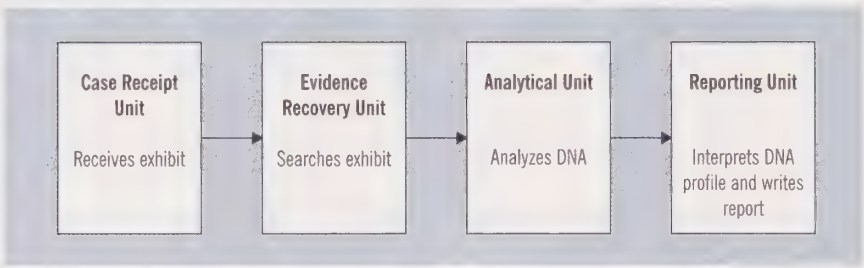
The RCMP categorizes a service request as urgent if it concerns an immediate threat to national security (for example, terrorist activities) or community safety (for example, unsolved serial crimes against persons). It categorizes all other requests as routine.

7.9 The consolidated structure aims to optimize casework activity by grouping scientists and technicians with similar training at the same site, and by reducing equipment and material costs.

7.10 Under the new service delivery model, individual scientists do not follow cases from start to finish; instead, cases flow through specialized units. For instance, for a Biology service request, the CRU

receives exhibits, the ERU searches exhibits for evidence, the Analytical Unit analyzes what the ERU recovers, and the Reporting Unit interprets the findings and prepares a report (Exhibit 7.4).

Exhibit 7.4 Under the new model for processing Biology cases, cases flow through specialized units



7.11 Other countries differ from the FLS in how they deliver services, particularly for Biology service requests. Some labs give one scientist responsibility for following a case through the entire process. Other labs function like the FLS, with units responsible for a specific aspect of the process. Still other labs adopt a team approach. In most of the labs we reviewed, the scientist responsible for reporting the findings plays a crucial role in overseeing the case from start to finish. At the FLS a case coordinator, who is not involved in analyzing the exhibits, is responsible for the administration and management of the case. Reporting officers are involved in scientific decisions if there are specific questions relating to the file or if samples are reworked.

7.12 Forensic labs are an important element of the criminal justice system. Investigators rely on forensic science to help identify or eliminate suspects, and to link suspects to crime scenes. Prosecutors rely on forensic science because it can withstand scrutiny in court. Forensic evidence can also aid in the exoneration of persons previously convicted.

7.13 DNA analysis is one of the most important tools available to forensic laboratories and has been used in Canadian courts since 1988. DNA evidence may be obtained from a small biological sample, such as a few drops of blood, semen, or saliva. Testing techniques may enable scientists to detect traces of blood even after clothing has been washed. However, because forensic samples may be contaminated, recovery of DNA is never certain. The RCMP's National DNA Data Bank has been operational since 2000. It helps law enforcement agencies identify repeat offenders by comparing DNA from crime scenes with DNA profiles from offenders convicted of serious crimes.

Previous audits and allegations

7.14 Our 1990 and 2000 audits of the RCMP included recommendations about the FLS (Appendix A). In our April 2000 Report, Chapter 7, Services for Canada's Law Enforcement Community, we noted that the level of service provided by the FLS did not meet clients' needs. DNA analysis took too long and was restricted to only the most important cases, limiting this tool's potential for enhancing public safety.

Standing Committee on Justice and Human Rights, Public Safety and Emergency Preparedness—In April 2006, the House of Commons changed the committee's name to the Standing Committee on Justice and Human Rights. At the same time, the House established a new committee—the Standing Committee on Public Safety and National Security—to take on the balance of the former committee's mandate.

7.15 In 2005 the House of Commons **Standing Committee on Justice and Human Rights, Public Safety and Emergency Preparedness** heard testimony from two former RCMP staff members, casting doubt on statements made earlier by RCMP officials before the Committee. The two former members particularly disputed claims that

- the RCMP Forensic Laboratory Services compared favourably with similar services around the world,
- there were no DNA case backlogs,
- DNA case response times were acceptable,
- service efficiency and effectiveness had improved,
- RCMP laboratories received adequate funding,
- the Balanced Scorecard (the RCMP's internal performance reporting system) was being used to solve previously existing problems, and
- structural changes responded to the Auditor General's 2000 Report.

7.16 The Committee asked the Auditor General to investigate the conflicting testimony presented to it on the performance of the RCMP Forensic Laboratory Services and on the status of DNA cases.

Focus of the audit

7.17 The objectives of this audit were to examine whether

- the FLS is delivering timely forensic services,
- there is adequate quality control of lab results,
- clients have adequate opportunity to influence how the FLS operates, and
- the RCMP has kept its commitment to report on FLS performance to Parliament.

7.18 The scope of the audit is limited to the RCMP's Forensic Laboratory Services. We did not examine other RCMP functions or services, or the National DNA Data Bank. Nor did we audit the quality of the forensic science used by the FLS, and we offer no opinion, positive or negative, on the validity of scientific analysis used.

7.19 More details on the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Observations and Recommendations

Timeliness of service

7.20 Forensic analysis is a highly valuable tool for police investigations, and delays in obtaining results can have significant impact. Delays may slow investigations and hamper the police's ability to eliminate suspects and make arrests quickly; the results include increased costs and wasted resources. More important, delays endanger public safety by giving criminals more time on the street to re-offend.

7.21 In our 2000 audit we noted numerous complaints about delays in DNA analysis by the Forensic Laboratory Services (FLS) and recommended better prioritizing so that more urgent requests would be handled first. We reported that on average DNA analysis took 101 days to complete at the end of 1999 (Vancouver and Ottawa labs averaged 171 days) and that there was a substantial backlog of cases not completed. Former RCMP employees have disputed recent claims to Parliament by the RCMP that turnaround times for DNA testing were improving and that the backlog was decreasing. Our objective was to determine whether the FLS is now providing timely service and whether there is a backlog. We examined the FLS from the 2003–04 fiscal year, when the new Laboratory Information Management System was implemented, through the 2005–06 fiscal year.

For the most part the FLS does not meet its own turnaround targets for completing service requests

Turnaround target—The number of days within which a service request should be completed.

7.22 The FLS introduced **turnaround targets** for service requests in the early 2000s. In 2000 the House of Commons Standing Committee on Public Accounts recommended that the RCMP "develop and implement a series of performance indicators and standards for each of the services provided by its forensic laboratories by the end of fiscal year 2000–01." The government responded that the RCMP had developed a two-tier priority system to replace the existing four tiers, with turnaround targets of 15 days for urgent requests and 30 days for

routine ones. In 2000 the RCMP created a performance standard formula with the same turnaround targets, including waiting time. The RCMP also called for targets to be validated, and it estimated that it would have sufficient data to undertake the validation by April 2002. In fact, no validation was ever conducted.

7.23 At the time of our audit, FLS policy included the 15- and 30-day turnaround targets, and the FLS reported on the extent to which it met these targets in the Balanced Scorecard. Since the FLS itself established the turnaround targets, we determined that it was appropriate to expect this standard to be met.

7.24 In the 2005–06 fiscal year the FLS met the 15-day turnaround target for handling almost all urgent requests—132 out of 134. But these represented only 1 percent of requests completed. The remaining 99 percent were categorized as routine, and in most instances the FLS did not meet its 30-day turnaround target for them. It met the target for only 10 percent of routine Biology service requests, 55 percent of Toxicology requests, 34 percent of Trace Evidence requests, and 23 percent of requests in both Firearms and Counterfeits/ Documents.

7.25 A number of sources indicate that the turnaround targets established by the FLS reflect operational requirements. For instance, in his 1996 inquiry into police investigation of the Bernardo case, Justice Archie Campbell recommended a 30-day turnaround time for DNA analysis. The RCMP performance standard formula created in 2000 set 15- and 30-day turnaround targets. In 2001, clients called on the FLS to establish a standard of 5 days or less for urgent requests, and 30 days or less for routine ones. In a survey we conducted for our audit, clients said that 15- and 30-day targets were acceptable. There is no generally accepted international standard, but the turnaround targets are similar to those set by some other labs. In the US state of Georgia, for example, the goal is to handle priority requests within 20 days and regular requests within 30 days. In Sweden the target is 20 days for all requests. Other labs have the goal of completing a certain percentage of cases within a set period; for example, the Ontario Centre of Forensic Sciences has a goal of completing 80 percent of cases within 90 days.

7.26 In addition to the corporate target of 30 days, the FLS uses Expected Diary Dates (EDDs) to provide realistic information to clients about the amount of time required to complete a routine service request. The EDD for Biology is currently 180 days. Management expects EDDs to be met 100 percent of the time. The proportion of

EDDs currently being met has risen from previous years but it has not reached 100 percent. Only 74 percent of Biology requests were completed within the 180-day EDD during the 2005–06 fiscal year. Other disciplines had higher completion rates, ranging from 80 to 98 percent of their EDDs. However, the FLS has lengthened the target times in recent years. For example, the EDD for Biology increased from 70 to 180 calendar days over the last three years. Although the corporate target of 30 days for routine requests may not currently be realistic for the FLS, an EDD that can be changed to ensure it is met is not a good performance indicator. It is important that the FLS develop appropriate targets for measuring performance.

7.27 In January 2006 the FLS began developing the Priority Rating of Operational Files (PROOF) system—a new prioritizing system that ranks operational files from least to most important. PROOF keeps the two-tier system of "urgent" and "routine," but it further divides routine cases into streams A, B, and C according to the type of offence and other criteria. PROOF is currently being implemented in a pilot project, and turnaround targets have not yet been established for the different streams. That is, a similar time frame applies for handling lesser offences (stream C) and more serious ones (streams A and B). The PROOF system has not been operating long enough for us to comment on the results.

7.28 Recommendation. The RCMP should ensure that the Forensic Laboratory Services' prioritization system and turnaround targets meet the operational needs of clients. Turnaround targets should be implemented before service requests increase, as they are expected to do once amendments to the *Criminal Code* and the *DNA Identification Act* come into force. The targets should be used to measure and report FLS performance.

The RCMP's response. The RCMP agrees that response times must be reduced. As the report indicates, significant reductions have been achieved in all disciplines except Biology (DNA).

The RCMP agrees that client consultation is important in ensuring that response times meet client needs. The RCMP will continue to engage its clients to establish reasonable turnaround targets. These targets will form the basis of performance reporting.

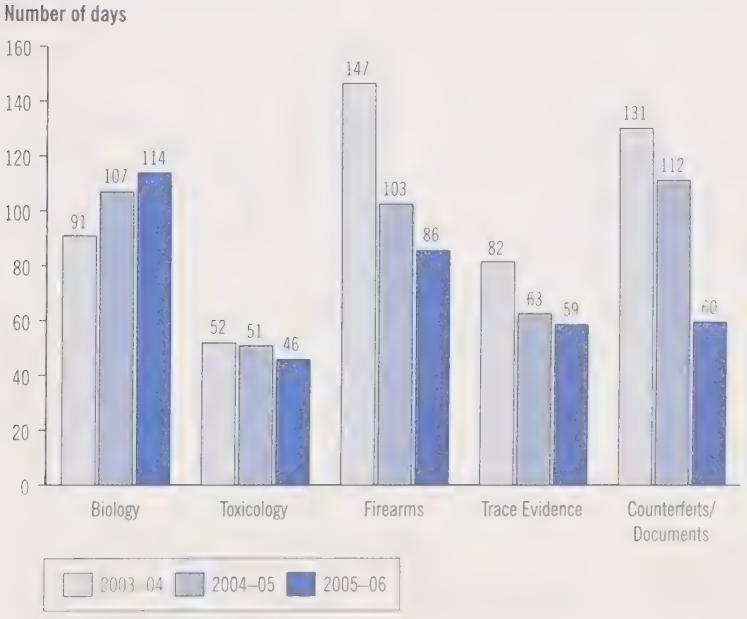
The FLS acknowledges the significant additional demands on Biology services that the proposed changes to the *Criminal Code* and the *DNA Identification Act* will create. The FLS has identified its requirements to meet the proposed changes.

Average turnaround time has improved for service requests in all disciplines except Biology

7.29 Recent years have seen a decrease in the average number of days required to complete a service request in most disciplines (Exhibit 7.5). When urgent and routine service requests are combined, the average **turnaround time** in Toxicology declined from 52 days in the 2003–04 fiscal year to 46 days in 2005–06. Over the same period it fell from 147 to 86 days in Firearms, 82 to 59 days in Trace Evidence, and 131 to 60 days in Counterfeits/Documents. With the exception of Firearms, these program areas also experienced a decrease in the number of service requests received over the same time frame. According to FLS officials, this may have given staff time to complete requests more expeditiously.

Turnaround time—The time that elapses from the arrival of the evidence at the FLS until the FLS sends a final report.

Exhibit 7.5 The average turnaround time has improved for all disciplines except Biology



Number of completed service requests

Discipline	2003–04	2004–05	2005–06
Biology	3,335	2,903	3,223
Toxicology	3,945	3,856	3,684
Firearms	2,335	2,408	2,682
Trace Evidence	852	688	772
Counterfeits/Documents	1,755	2,239	1,399

Source: Royal Canadian Mounted Police

7.30 The average overall turnaround time in Biology increased from 91 days in the 2003–04 fiscal year to 114 days in 2005–06. This includes requests outsourced to a private laboratory; excluding them, the average turnaround time in the 2005–06 fiscal year was 118 days (compared with 94 days in 2003–04). Since the FLS categorizes service requests as either urgent or routine, we examined turnaround times for both priority levels. An urgent Biology service request is completed in 11 days on average. However, urgent requests account for only about 3 percent of completed Biology service requests. The remaining 97 percent of requests are routine and their average turnaround time is 116 days.

7.31 In statements to Parliament, the RCMP noted that its forensic services are "as good as, if not better than, anywhere else in the world" in terms of response time for major crimes. At the time of the audit, however, the FLS was not able to provide us with much information on how it compares with other labs. We therefore contacted other labs in Canada and elsewhere (Exhibit 7.6). Our information on those facilities is based on official reports or was provided to us during site visits and later confirmed. It is unaudited. Although some labs report shorter turnaround times than the FLS, few labs complete service requests within 30 days, and some labs reported longer turnaround times than the FLS. The United Kingdom's Forensic Science Service, a private organization, appears to have the shortest turnaround time, with an average of 7 days in the 2004–05 fiscal year for a DNA crime scene request. For other labs we visited, turnaround times range from a median of 28 days at Sweden's National Laboratory of Forensic Science (excluding break and enter samples, which are generally completed more quickly) to more than 100 days in some labs in the United States. In Canada, the Ontario Centre of Forensic Sciences reports an average turnaround time of 96 days (excluding break and enter samples).

Only about half the clients we surveyed said that the service was timely

7.32 According to RCMP officials, efficiency and effectiveness of casework processing are measured against client needs and satisfaction levels, as determined by quality of service questionnaires and client visits. The FLS sends out questionnaires with each report it prepares, and it analyzes those returned to measure client satisfaction. According to returned questionnaires in the 2005–06 fiscal year, 87 percent of clients agreed or strongly agreed that the service was timely. However, these questionnaires are not anonymous and the response rate was only 33 percent. The FLS has not studied whether clients who do not respond to these questionnaires are more likely to have negative opinions.

Exhibit 7.6 We compared RCMP FLS to other Biology units[1]

Laboratory	Expenditures (millions of CAN$)[2]	Staff	Service requests completed yearly	Average turnaround time (days)	Comments
RCMP FLS	$9.4	110	3,223	114	• In addition, completed 592 no-suspect break and enter service requests
Ontario Centre of Forensic Sciences	$5.9	75	3,682	96	• Expenditures and staff cover work on break and enter service requests and some research and development • In addition, completed 1,402 no-suspect break and enter service requests
Laboratoire de sciences judiciaires et de médecine légale, Quebec	$4.8	38	4,319	—	• Includes break and enter service requests
Georgia Bureau of Investigation, Division of Forensic Science (US)	$2.0	16	3,031	80–105 (estimate)	• Includes break and enter service requests • Does not include about 3,000 outsourced service requests • Service requests may be split, which could affect average turnaround time
Florida Department of Law Enforcement, Crime Laboratory (US)	$8.8	108	6,621	188	• Includes break and enter service requests
UK Forensic Science Service	—	—	—	7 (crime scene exhibits only)	• Private lab model
National Laboratory of Forensic Science, Sweden	$5.1	65	Approx. 3,000	28 (median)	• Expenditures and staff cover work on the DNA database and break and enter service requests • In addition, completed 10,000 break and enter service requests

[1] The information provided by the UK is based on a published 2004–05 annual report; other information was provided to us directly by the labs. It is unaudited. Despite some organizational or policy differences, in general labs have indicated that the information is based on definitions similar to what the FLS uses. The time frame used differs slightly across labs, but basically covers 2004–05 or 2005–06. Unless noted, the information excludes processing of requests by the DNA data bank.

[2] Converted to Canadian dollars using Bank of Canada annual average exchange rates.

— Comparable information is not currently available.

Primary offences are the most serious of crimes. They include murder, attempted murder, sexual assault, and assault.

7.33 We conducted a client survey with investigators responsible for 113 randomly selected cases with at least one **primary offence**, and another more general survey of 135 clients, with response rates of 98 and 91 percent respectively (see **About the Audit**). We asked clients about the timeliness of service for specific service requests, as well as the timeliness of service in general. In client interviews about service in general, around one third of respondents said the response time was good or very good for urgent requests, and one quarter said it was good or very good for routine requests. In discussing specific cases, half (53 percent) of those interviewed said that the service was timely. About one third (30 percent) said the response time was fair, and 18 percent said it was poor or very poor. When asked what would have been an appropriate turnaround time for the specific service request they were asked about, 68 percent said 30 days or less. These results differ substantially from those of the FLS questionnaires, indicating the need for additional measures of client satisfaction by the FLS.

7.34 Recommendation. The RCMP should develop measures of service efficiency and effectiveness in consultation with clients. In addition to existing tools for measuring client satisfaction, it should use client surveys conducted by an independent, external organization.

The RCMP's response. The RCMP agrees that measurement of efficiency and effectiveness, both internally and from client feedback, is important. The FLS currently uses a Quality of Service Questionnaire, which it encourages clients to complete. The RCMP agrees that use of an independent third party to develop and receive feedback may improve response rates and reduce the likelihood of bias. It will further explore this option.

The FLS is not prioritizing cases as described to the parliamentary standing committee

7.35 In their 2005 testimony before the House of Commons Standing Committee on Justice and Human Rights, Public Safety and Emergency Preparedness, RCMP officials said that "murder cases, cases with violence, violent assault cases . . . would definitely go right into the priority queue and be handled right away." In fact, the FLS does not prioritize cases in this way. At the time of the testimony an urgent service request was defined as concerning only an immediate threat to national security (for example, terrorist activities) or community safety (for example, unsolved serial crimes against persons). Other requests could be designated as urgent under extraordinary circumstances—for example, if the ability to recover

information from the material declined rapidly, or a court order required a time frame of less than 30 days.

7.36 There were 63 service requests categorized as urgent during the 2004–05 fiscal year and 134 in 2005–06 (about two thirds of them Biology requests). In each of those years the urgent requests amounted to 1 percent or fewer of all requests. In contrast, there were 980 urgent requests amounting to 8 percent of the total in the 2003–04 fiscal year, when the definition of "urgent" was broader. Approximately 38 percent of all service requests in 2005–06 were related to violent crimes, including murder, sexual assault, robbery, abduction, and assault. A further 10 percent were related to property crimes (such as break and enter, and theft) and 52 percent were related to "other" *Criminal Code* offences (such as motor vehicle or weapons offences and fraud). Since almost 5,000 of completed service requests were related to violent offences and 134 service requests were categorized as urgent, it follows that most violent cases in fiscal year 2005–06 were categorized as routine. Officials told us that the FLS lacks the capacity to treat large numbers of service requests as urgent.

7.37 To evaluate RCMP claims that serious offences such as murder and violent assault are handled more rapidly than requests involving less serious crimes, we calculated turnaround times for different offence categories. In the 2005–06 fiscal year, service requests for violent offences were not handled more rapidly than those involving less serious crimes. For instance, the average turnaround time was 91 days for service requests related to homicide and 109 days for those related to sexual assault. For service requests related to break and enter the average turnaround time was 87 days, and for those related to motor vehicle offences it was 37 days.

7.38 RCMP officials have noted that they strive to meet the court date set for a case. Aside from the need to meet a court date, there are other reasons for providing timely service. For instance, the results of DNA analysis can help eliminate suspects, allowing investigators to better focus their work and save time and resources. DNA evidence is often required to lay a charge; timely analysis can help ensure that a suspect is not on the street with the opportunity to re-offend. In addition, forensic evidence can alleviate victims' anxiety, may be needed at preliminary hearings, and may exonerate an innocent person.

7.39 The turnaround time for analysis of DNA warrants illustrates the significance of timely results. In many criminal investigations, police officers require an initial screening of DNA from the crime scene before they can obtain a court order for the collection of a suspect's DNA.

The two steps open the possibility for two delays. First is the wait for the initial screening of DNA from the crime scene before obtaining a DNA warrant; second is the wait to obtain a suspect's DNA profile and check whether it matches the crime scene sample. Until October 2006, the FLS had no mechanism in place for linking and expediting the two steps. Officials told us that the FLS can now link DNA warrant samples with initial screenings and give them higher priority.

Backlog is a major cause of longer turnaround times in Biology

7.40 We looked for delays in particular parts of the process for Biology service requests. FLS officials have said that cases are not opened as promptly as they once were, lengthening the turnaround time. We could not use the Laboratory Information Management System (LIMS) to calculate processing and waiting times because the FLS decided not to include information on waiting times in that system. The FLS told us that no one has measured the exact time required for particular tasks, but it estimates that processing time for a Biology service request ranges from 11 to 21 calendar days. This includes 2 to 6 days for evidence recovery, 5 to 6 days for analysis, 3 to 5 days for reporting, and 1 to 4 days for technical and administrative reviews. If we subtract processing time from the average turnaround time of 114 days, we obtain an estimate for the average waiting time of between 93 and 103 days.

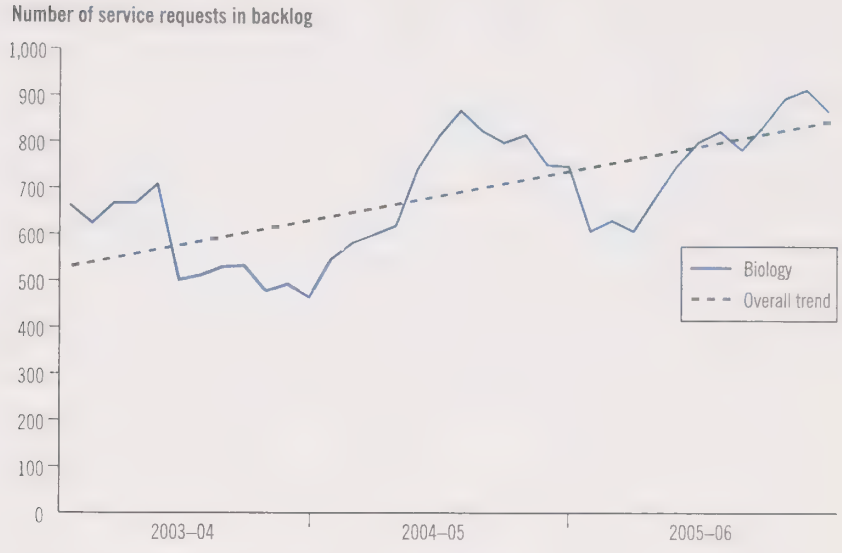
7.41 In 2001 RCMP officials reported that turnaround times for DNA testing were shortening and the backlog was decreasing. In 2004 they told the Standing Committee on Justice and Human Rights, Public Safety and Emergency Preparedness that the system had no backlog, only "cases in process."

Backlog—Requests for service not completed within the approved performance standard response time for the assigned priority—in this case the 30-day routine standard developed by the FLS.

7.42 The FLS regularly monitors requests that are not completed. According to FLS records, as of March 2006 there were 2,017 requests across all disciplines that were unfinished 30 days after receipt, a decrease from 2,518 in April 2003. However, during the same period the backlog in Biology grew from 663 to 873 service requests (Exhibit 7.7). Furthermore, at the end of March 2006, the Biology unit had a queue of 760 cases (which would translate to at least as many service requests) above the number agreed to in provincial/territorial agreements. These queued cases had not yet been accepted by the FLS. With the current performance standard of 2 requests per week for Biology reporting officers, additional staff may be required to clear the backlog.

Queued cases involve secondary offences (for example, robbery or break and enter) and are beyond the quota of cases that the FLS is expected to complete under agreements with provinces/territories.

Exhibit 7.7 The backlog in Biology has increased



Source: Royal Canadian Mounted Police

7.43 Recommendation. The RCMP should develop mechanisms for identifying bottlenecks in the process and should determine the systems, procedures, and resources required to eliminate the backlog.

The RCMP's response. The RCMP agrees that identifying bottlenecks in processes is important, and will undertake workflow analyses to determine further efficiencies.

Additional resources have not made service more timely in Biology

7.44 According to FLS officials, a review completed in 2003 sought to ensure that programs were aligned with the FLS mandate. Officials said that the program review would yield annual ongoing savings of $2 million as a result of the consolidation of equipment and staff. Savings generated by the efficiencies achieved were to be re-invested in high-priority areas, such as DNA analysis and the creation of case receipt units and evidence recovery units.

7.45 The RCMP has been unable to provide evidence of the program review but it appears to have adjusted funding levels in line with demand. In the 2005–06 fiscal year Toxicology, Trace Evidence, and Counterfeits/Documents received less funding than in 2003–04; this paralleled a decline in the number of service requests they received. Funding rose for Biology and Firearms, the two disciplines with an

increased number of service requests. Biology, for example, experienced a 5 percent increase in the number of service requests received between fiscal years 2003–04 and 2005–06. During the same time expenditures adjusted for inflation increased by at least 30 percent (from $6.9 million to at least $9 million) and staff by 29 percent (from 85 to 110).

7.46 According to FLS officials, however, it takes up to two years to prepare a scientist to conduct forensic analysis, and there are indirect costs of using in-house personnel for training. FLS officials could provide only limited data on the number of employees trained and available for work. On the basis of the data provided to us, if we exclude Biology staff in training, on leave, or not working in the unit, as well as indirect staff time used to train new personnel, we estimate that there was an increase of about 30 percent in staff devoted to casework from May 2004 to March 2006. FLS officials told us that most new staff members were assigned to the ERU, and the bottleneck is currently in the Analysis Unit. They told us that for turnaround times to decrease, overall demand for services must remain stable over time and the system for processing forensic DNA analysis must stabilize and mature.

7.47 While resources for Biology have increased, the number of service requests completed each year has remained relatively stable: 3,335 requests were completed in the 2003–04 fiscal year and 3,223 in 2005–06. Similarly, according to FLS documents, there has been no major change in the number of exhibits per service request; these averaged 9.1 in the 2003–04 fiscal year and 9.9 in 2005–06. Accordingly, we would expect to see an improvement in the turnaround time for Biology service requests. Instead, the average turnaround time increased by 25 percent between fiscal years 2003–04 and 2005–06 (from 91 to 114 days). The Biology unit was able to complete about 13 service requests per working day.

7.48 We looked at the possibility that FLS involvement in a British Columbia serial murder case might have adversely affected turnaround times for other Biology cases. The FLS first became involved in the case in February 2002. During a five-year period it analyzed more than 220,000 DNA samples, by far the largest number analyzed for a single case in the history of the FLS. Between fiscal years 2002–03 and 2005–06, the FLS received $8.2 million from the province for the forensic services it provided for the case.

7.49 FLS officials told us that existing staff worked on the case until April 2004, when additional employees were hired. The officials also noted that the case had at least an indirect negative impact on other

operational casework. For instance, the FLS had to allot resources for hiring and training new staff; and the case required the attention of senior staff members, lessening the opportunity for them to address issues of turnaround time on other cases. Aside from the indirect impact, the FLS has not been able to quantify the direct impact on operational casework. As we have noted, during this period the FLS saw an increase in the number of staff available to handle the normal Biology workload.

7.50 **Recommendation.** The RCMP should conduct a review of the Forensic Laboratory Services to examine internal efficiencies, perform a cost/benefit analysis of various services, and examine the need for additional resources.

The RCMP's response. As per recommendation 7.43, the RCMP agrees that there should be cost/benefits analyses for all services and will undertake a workflow analysis to determine if there are further operational efficiencies to be gained.

7.51 **Recommendation.** The RCMP should develop a capability for management of the Forensic Laboratory Services to analyze capacity and efficiency (including comparing performance with that of other forensic labs) in order to handle future demands.

The RCMP's response. The RCMP agrees that benchmarking is an important tool to measure performance and analyze capacity to meet future demands. The FLS will strive to balance capacity with performance by developing individual and unit performance metrics, and ensure that they are measurable and reportable.

Quality of lab results

The labs have a quality management system in place

7.52 It is crucial that forensic work be of high quality. If it contains errors, guilty individuals could go free or innocent individuals could be wrongly convicted. Weak quality control in forensic laboratories can cast serious doubt on the integrity of the criminal justice system.

7.53 Our 2000 audit found the FLS quality assurance process to be weak. The accreditation process was two years behind schedule, and the **proficiency testing** program was not adequately implemented or monitored. We recommended that the RCMP ensure quality in its laboratories by timely accreditation, documentation of methodology, and full implementation of the proficiency testing program.

Proficiency testing—The systematic examination of an individual's competence. A test may be prepared internally or externally. In an open test the individual knows that he or she is being tested but does not know the expected results. In a blind test the individual does not know that he or she is being tested.

7.54 Since that time the FLS has made progress in remedying the weaknesses identified. It has created a national quality assurance program, with a National Quality Manager and Local Quality

Managers at each site. It has also established national policies and procedures regarding quality. The Standards Council of Canada has now accredited all FLS sites.

7.55 The FLS has implemented another important aspect of quality assurance: a proficiency testing program. According to FLS policy, each forensic scientist must perform at least one proficiency test per year in his or her specialization, and at least one proficiency test every two years in each major area of testing within the program. Proficiency tests are the responsibility of the quality assurance program and are monitored through managerial reviews. Failure on a proficiency test results in an identification of a quality issue.

7.56 According to FLS annual reports, success rates on proficiency tests are high—between 98 and 100 percent in calendar years 2001 through 2005. The FLS proficiency testing program is similar to that of other labs, although some have more extensive testing in place (for example, blind testing or retests of performed analyses). The FLS primarily uses open testing and regards blind testing as unfeasible.

7.57 Finally, in our review of quality of service questionnaires and in client interviews, we found that clients were generally pleased with the quality of service and particularly with staff. Eighty-nine percent of clients interviewed said that the quality of service provided by the FLS was good or very good.

The quality assurance program failed to identify some quality issues

7.58 FLS policy defines a quality issue as "any situation in which there is a reasonable concern or suspicion that the validity of forensic work undertaken in FLS in a particular instance is unreliable for any reason whatsoever. This includes situations in which the quality of service is suspected to be substandard."

7.59 Quality issues may result from clients' complaints, proficiency tests, reviews, audits, or other sources. The National Quality Manager is responsible for the documentation, investigation, and adjudication of quality issues. FLS policy requires all staff to report suspicious situations to a Local Quality Manager. The Local Quality Manager will immediately notify the National Quality Manager, who in turn notifies the program manager. Consulting as necessary, the National Quality Manager and Local Quality Manager determine whether a suspicious situation should be recorded as a quality issue. According to FLS's Standard Operating Procedure, if there is any doubt, the situation should be called a quality issue.

7.60 The National Quality Manager has the overall responsibility for investigating, identifying corrective and preventive actions, and preparing a written report; if the issue is local, however, the Local Quality Manager will conduct the investigation. The National Quality Manager is also responsible for maintaining a record of all quality issues, the results of investigations concerning them, and the actions taken to correct them.

7.61 We found that in practice some issues meeting the FLS definition of a quality issue were not recorded as such. In 2005 the FLS identified 11 quality issues. However, some nonconformities identified from internal reviews and other sources were not dealt with according to policy under the national quality management system. According to FLS officials, individual program assurance processes dealt with these issues. But in these instances, the National Quality Manager may not have been aware of a potential quality issue, the issue may not have been dealt with in a consistent manner, and some quality issues would not have been identified as such.

7.62 FLS officials told us they lack a workable definition of a "quality issue" that would allow staff to distinguish between anomalous results needing investigation and simple lab errors. Consequently, senior management cannot determine whether the quality management system is operating as intended or whether any of the nonconformities had an impact on services provided.

7.63 The most significant failure of the quality management system identified in the audit concerned the new automated process for DNA analysis, which was introduced in operational casework in September 2005. The automated process uses robots at various stages of analysis to increase the number of DNA samples that can be processed at one time. The RCMP's Departmental Performance Report for the 2005–06 fiscal year projected that automation would "provide a two- to three-fold increase in casework capacity while improving the timeliness of reporting results."

7.64 Shortly after implementation of the automated process, FLS scientists involved in casework began raising quality concerns in email messages to management and in meetings (Exhibit 7.8). Similar concerns were identified in a review conducted by a Local Quality Manager in November 2005. Late in that month the automated process was suspended to examine inconsistencies in results. Management concluded that the standard used for quantification was inaccurate, yielding weak DNA profiles. Management reinstated the automated process on 30 January 2006, for use in operational casework. About a

month later, FLS scientists again began expressing concern about the quality of results obtained from the automated process.

7.65 In May 2006, FLS officials asked Biology staff to provide a list of case samples for which the automated process did not produce the expected results. As of 28 June 2006, 116 cases with a total of 416 samples were identified, representing about 27 percent of cases processed since the implementation of the automated process. FLS officials noted that some samples identified did not conform to the criteria they had suggested. At the same time, it is possible that the list does not contain all samples with questionable results. We found instances in which the validity and consistency of the results were

Exhibit 7.8 Problems with the automated DNA process were noted soon after implementation

Year	Date	Event
2005	26 September	Analysis of operational casework using the new automated process for DNA analysis began.
	27 October	Problems with the automated process were first noted.
	8 November	An internal review identified concerns about the quality of the automated process.
	30 November	Casework using the automated process was suspended pending a review of inconsistent results.
2006	30 January	Casework using the automated process restarted.
	March	Starting in March and continuing throughout the year, staff members raised concerns about the automated process (for example, low DNA yields) and referred to quality assurance and quality control issues in meetings and email.
	10 May	Management requested information on case samples that did not provide expected results.
	27 June	The Acting National Quality Manager announced a review of cases for which the automated process had yielded questionable results.
	28 June	Spreadsheet of 416 problem samples identified.
	18 July	Troubleshooting progress report on the automated process: problem still unresolved.
	10 August	Email indicating that certain sample types would now be processed manually.
	30 October	Quality issue identified: using Hemastix on possible blood sample could interfere with any subsequent analysis using the automated process. (See definition of Hemastix on page 23.)

questioned by FLS scientific staff involved in operational casework, as well as by police investigators (Exhibit 7.9). FLS scientists were not concerned about errors in DNA profiles, once generated. Instead they were concerned about findings of no or insufficient DNA when they would have expected to find some.

7.66 FLS officials have noted that there is no guarantee of obtaining DNA typing results from casework samples and that the previously used manual extraction process could give similar results. Furthermore, initial analyses indicate that the automated and manual processes yield similar overall success rates. However, in examining sample types (for example, where there was an indication of blood or where blood was identified), the FLS found that the success rate of the automated process in obtaining reportable DNA profiles was lower than the success rate of the manual extraction method. The FLS also found that when the automated process was used, approximately 3 percent of known samples did not yield sufficient DNA for profile development; when the manual process was used, the percentage was zero during the same period. The FLS did not identify a quality issue until October 2006, more than a year after concerns were first raised by staff. The quality issue was identified because of indications that the use of a **Hemastix test strip** on possible blood could interfere with analysis using the automated process.

Hemastix test strips—A tool commonly used to indicate whether a sample from a crime scene may contain blood.

Exhibit 7.9 Examples where results from automated process were questioned

- The FLS received exhibits from a murder investigation. According to the investigator, two exhibits had more than 100 spots of blood each. The FLS examined the samples using the automated process. Six months later it reported finding no DNA for analysis. The investigator asked for retesting because the case relied on DNA evidence and the exhibits clearly had blood on them. The FLS re-examined the exhibits with the manual method previously in use for analyzing DNA; it found positive DNA profiles linking the suspect, victim, and crime scene. Eleven months had elapsed from the original submission of exhibits until the final results were obtained. Although DNA was eventually found for the exhibit, this example illustrates concerns raised about finding no or insufficient DNA, and the added time involved in analysis.
- The FLS received exhibits from a murder investigation. One sample drawn from a suspect was to be used as a known sample. After the sample was examined, the analysis was rerun to confirm the profile. The second profile was not consistent with the first. The scientist responsible for the analysis raised the lack of reliable results as a quality issue. This issue was never formally identified as a quality issue or addressed through the quality management system. This example illustrates concerns raised about the consistency of results, and indicates that quality concerns were not reflected in the quality management system.

7.67 FLS officials noted that the November 2005 review conducted by the Local Quality Manager and subsequent actions were not brought to their attention until revealed by our audit in June 2006. Furthermore, although quality concerns were raised in internal meetings and through emails, and although the automated process was suspended for two months after concerns were raised, no quality issue was recorded until more than a year later, in October 2006. Since the concerns about the automated process fit the FLS definition of a quality issue, they should have been identified as such, with appropriate follow-up actions tracked and recorded.

7.68 **Recommendation.** The RCMP should take measures to ensure identification of all quality issues. The RCMP should ensure that quality issues, once identified, are systematically tracked and resolved, and made available in a consolidated form, and that actions are communicated to senior management.

The RCMP's response. The FLS agrees that it will put into place managerial mechanisms to ensure that quality issues are defined clearly, are recorded and tracked in a systematic manner in its Quality Management System, are available in a consolidated format, and that all actions are communicated to senior management.

The FLS did not follow adequate procedures for project planning and implementation

7.69 The audit identified some additional concerns about the validation and implementation of the automated process. The process was validated for use in operational casework according to the guidelines of the Scientific Working Group on DNA Analysis Methods (SWGDAM). This working group is organized by the United States Federal Bureau of Investigation and includes representation from federal, state, and local forensic laboratories in the United States. The FLS is a member of SWGDAM. SWGDAM serves as a forum to share and evaluate forensic biology methods, protocols, training, and research to enhance forensic biology services. It also makes recommendations on quality assurance standards for forensic DNA testing laboratories.

7.70 According to the 2003 SWGDAM guidelines, developmental validation (demonstration of the accuracy, precision, and reproducibility of a procedure) must precede the use of a novel methodology for forensic DNA analysis. Under the guidelines, a peer-reviewed publication of the underlying scientific principles of a

technology is required, and a peer-reviewed publication of the results of developmental validation is encouraged. The new procedure may be implemented without a peer-reviewed publication if the results have been disseminated in multiple ways to the scientific community for review and evaluation. Following the developmental validation, an internal validation is required to demonstrate the reliability and limitations of the procedure at each site where it is being used.

7.71 According to FLS officials, the developmental and internal validations of the automated process were planned along SWGDAM guidelines, which cover the type of experiments to be performed and the type of samples to be tested, as well as what is to be defined before the process is implemented in casework. Although the results of the developmental validation were not published in a peer-reviewed journal, according to the FLS the results were provided to the scientific community in presentations at scientific meetings and conferences. However, the validation studies were conducted by individuals who themselves had been involved in designing and implementing the automated process. In our view, while the FLS may have met SWGDAM validation guidelines, a new process of this significance should have been subjected to an external peer review to provide independent assurance to management prior to implementation.

7.72 Of equal concern was the lack of documented sign-off by the National Program Manager, the Chief Scientific Officer, and the FLS Assistant Commissioner before implementation; this was particularly necessary given the importance of the switch to automation. Also lacking is documentation showing that the FLS put in place a strategy for dealing with limitations or making key decisions before it implemented the new process.

7.73 Recommendation. The RCMP should develop standard procedures for project planning and implementation, including documentation of decisions and sign-off by senior management.

The RCMP's response. In 2004, the FLS created the Project Management Office to ensure that PMBOK® (Project Management Institute) standard project management practices are applied to FLS projects.

The decision-making process for planning, implementation, and sign-off of projects will be subject to a more rigorous and detailed process.

Client consultation

Clients lack opportunity to influence how the FLS operates

7.74 Not only the RCMP but other members of the law enforcement community rely on the FLS. Provincial and municipal police and other agencies currently submit about half the service requests, and prosecutors rely on the results in court. Furthermore, some FLS funding comes from agreements with provinces and territories. It is therefore important that clients be consulted about their requirements and have an opportunity to influence how the FLS operates to ensure that their needs are met.

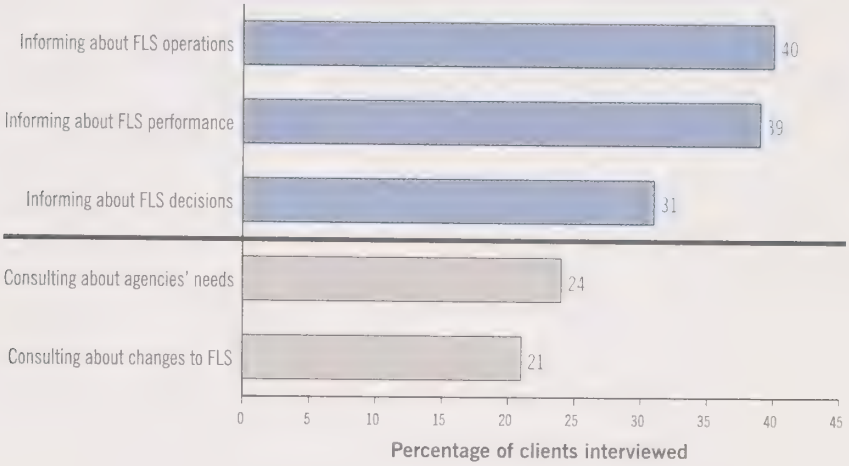
7.75 In previous audits we recommended that the RCMP establish a national forensic advisory committee. In 2000, the RCMP established the Forensic Laboratory Services Advisory Group (FLSAG), which provides advice and recommendations to the FLS Assistant Commissioner. Currently the FLSAG includes individuals representing client expectations (the RCMP and municipal police services), partnerships (provincial governments), criminal justice, work processes, science, and human resources. Given the terms of reference and membership, the Advisory Group appears to be designed as a source of expertise to which the FLS can turn for assistance in operations, rather than a mechanism for informing and consulting with clients. It may be advisable to strengthen the role of the FLSAG, making it more of a consultative body.

7.76 A national forensic advisory committee has been created but the intent of our previous recommendations has not been addressed. The RCMP still needs to provide an opportunity for client input.

7.77 The FLS keeps clients informed to some extent through client visits, newsletters, written correspondence on specific topics, and the RCMP website. However, only about one third of the clients we interviewed said that the FLS was good or very good at informing clients about operations, decisions, and performance (Exhibit 7.10). Furthermore, 42 percent said that they or their agency had received a client visit from the FLS.

7.78 More important, clients reported little consultation on key topics. Less than a quarter of the clients we interviewed said that the FLS was good or very good at consulting about client needs and changes being planned. FLS officials told us that Regional Consultation Committees were created in fall 2006.

Exhibit 7.10 A small proportion of clients said the FLS was good or very good at informing or consulting with them



7.79 Recommendation. The RCMP should establish a mechanism for consulting with clients so that they have an opportunity to influence lab services, priorities, and service standards.

The RCMP's response. The RCMP agrees that client consultation is an important component in identifying FLS priorities and ensuring client service is aligned with needs. Client consultation groups have been established, and a more comprehensive consultative plan will be developed to enable clients to influence decision-making processes.

The FLS will undertake a more active communications approach with clients to enhance mutual understanding.

The FLS does not usually negotiate the due date for service requests

7.80 In their testimony to the House of Commons Standing Committee on Justice and Human Rights, Public Safety and Emergency Preparedness in 2005, RCMP officials stated that the FLS negotiates due dates with its clients and that each request is negotiated to the client's satisfaction. When asked who decides whether a service request is urgent, officials said that the final decision rests with the police service and the investigator submitting the case to the lab facility.

7.81 We examined the extent to which the FLS negotiates the priority of a service request and response times with clients. The due date was automatically set to the default Expected Diary Date (EDD) for 92 percent of routine service requests in the 2005–06 fiscal year.

Routine service requests for which the due date was not simply the EDD included requests in cases having a set court date (6 percent) and flagged requests (2 percent). The FLS told us that due dates can be negotiated but negotiations are infrequent and limited, since deviation from the EDD can create problems in the orderly processing of service requests nationwide.

7.82 Our client interviews confirmed the lack of negotiation. In the case-specific interviews, 82 percent of respondents said that there was no negotiation of the original due date. When asked about specific cases, 20 percent said that the due date did not meet their needs. Of that 20 percent, two thirds said that the due date set by the FLS had affected the arrest or court proceedings.

7.83 As well as limited opportunities to negotiate turnaround time, clients have little say in the number of exhibits they can submit to the FLS for analysis. Recent FLS policy allows investigators to submit up to eight exhibits with each Biology service request. In rare instances that policy may be waived. The FLS says that the limit on the number of exhibits enables laboratory staff to better manage service requests and improve response times.

Performance reporting

Performance reporting has not improved

7.84 In our 2000 audit we found that FLS performance measurement systems were weak. Stakeholders had little information on the level of service at laboratories; laboratory management did not have the required information on efficiency. The lack of information was reflected in the RCMP's performance reports, which contained discrepancies in data. We recommended that the RCMP ensure full implementation of its information management system and improve performance reporting.

7.85 In January 2003 the FLS implemented a new Laboratory Information Management System (LIMS). Our review found that LIMS captures information needed to monitor operations and respond to client needs, and it allows the FLS to operate as a single lab system. It is capable of integrating evidence tracking, analytical results, and lab management information to provide a clear overview of each case. Furthermore, it facilitates the use of a national case numbering system and monitoring of the completion of service requests; this allows staff to enter case information and track exhibits during the lifetime of a case. The FLS regularly adds new features to update and improve the system. We found evidence of one significant issue: staff can and do overwrite the due date for a request. This is problematic because one of

the key FLS performance indicators is the percentage of due dates met. If the due date can be overwritten, performance may appear better than it actually is.

7.86 Although LIMS has increased the reliability of information and improved the ability to report on performance, the RCMP is not reporting FLS performance externally to clients or Parliament. In 2001 the RCMP accepted the recommendation of the House of Commons Public Accounts Committee that it "begin to report financial and performance information with regard to its forensic laboratories in its annual Departmental Performance Reports, beginning with the Report for the period ending 31 March 2002." The RCMP reported FLS performance in its Departmental Performance Report for the 2001–02 fiscal year, but the report for the 2002–03 fiscal year contained limited information on the FLS, and the 2003–04 report contained none. FLS performance is currently not reported through any other channel. Therefore, little performance information about the FLS is available externally.

7.87 Recommendation. The RCMP should ensure that parliamentarians receive the information needed to hold the government to account for the performance of all activities related to the Forensic Laboratory Services, including information on turnaround times and the extent to which performance targets are met.

The RCMP's response. The RCMP agrees with government's commitment to transparency and accountability. It will explore mechanisms to report to Parliament more fully.

Conclusion

7.88 In examining statements made to Parliament by the government and the RCMP since our 2000 audit, we found large discrepancies with our findings from this audit (Exhibit 7.11). Our first audit objective was to determine whether the RCMP delivered timely forensic services as claimed in statements by RCMP officials to parliamentary standing committees. The RCMP has met some criteria but overall it is not delivering timely forensic services according to the targets it has set. Although a system for prioritizing requests is in place, the definition of "urgent" has been revised so that only 1 percent of service requests fall into that category, compared with 8 percent in the 2003–04 fiscal year. Turnaround targets exist for urgent and routine requests, but in most instances the Forensic Laboratory Service (FLS) cannot meet the targets. Furthermore, we found problems in workload management:

the backlog of Biology requests in particular is increasing, as is the turnaround time. The average turnaround time for a Biology service request is 114 days, up from 91 days in the 2003–04 fiscal year.

7.89 We examined whether the RCMP had adequate quality control of lab results. A national quality management system is in place, including accreditation and proficiency testing processes. In practice, however, there are significant weaknesses in how the FLS defines, monitors, and resolves quality issues. Problems that meet the definition of a quality issue were not recorded as such. In addition, the quality management system failed to identify problems with the automated DNA process. Given these major shortcomings, overall the RCMP cannot be said to perform satisfactorily in this area.

7.90 We looked at whether clients are provided with adequate opportunities for influencing how the FLS operates to meet their needs. The RCMP met our criteria with regard to establishing a forensic advisory group, and it attempts to inform clients through client visits and newsletters. According to clients, however, there is not much consultation on important topics such as services, priorities, timeliness of service, or performance. Clients told us they have little opportunity to negotiate the turnaround times for service requests, and they have little say in how many exhibits they can submit per service request—the maximum number allowed is eight.

7.91 Finally, we examined whether the RCMP has kept its commitment to report on FLS performance to Parliament. The RCMP partially met our criteria by implementing a laboratory management system. But although it is able to examine performance, the RCMP is not reporting on FLS performance to clients or to Parliament.

7.92 Many of our recommendations focus on addressing weaknesses in the FLS internal management systems. Our findings suggest the need for standards and indicators so that management can adequately measure and report on performance. Similarly, there is a need to identify and resolve quality issues systematically. Finally, the FLS needs the capability to examine its capacity and efficiency.

Exhibit 7.11 Summary of findings on statements to Parliament

Government and RCMP statements	Our findings
Solicitor General of Canada, Government Response to the 17th Report of the Standing Committee on Public Accounts: RCMP—Services for Canada's Law Enforcement Community, June 2001	
"It is anticipated that new performance and service standards will have been validated and client consultation completed by fiscal year 2002. It is the intention of the RCMP to publish these standards and to report annually on its performance against these standards."	• No evidence that performance and service standards were validated. • New standards have not been published. • FLS performance discussed in departmental performance reports for fiscal years 2001–02 and 2002–03, but not thereafter.
Standing Committee on Justice, Human Rights, Public Safety and Emergency Preparedness, November 2004	
"There is no backlog in the system. What we have is cases in process. There isn't one major case that is not done within 15 days. There is no country in the world that meets that standard."	• We examined "cases in process" that had not been completed within 30 days (defined as backlog). Overall backlog was 2,017 service requests in March 2006. • Most urgent service requests are completed within 15 days. However, the definition of an urgent request was narrowed in 2003, with the result that 1 percent or fewer service requests currently fall into this category. The remaining routine service requests include murder and other violent offences (38 percent of all requests concern violent offences). • The UK's Forensic Science Service meets the target of 7 days for completing DNA analysis of crime scene stains.
"Every single major case that requires an emergency DNA analysis is done in this country and it's done within 15 days. Every other case is negotiated and discussed with the police force or the agency that wants that done, and every single one is satisfied."	• 82 percent of clients interviewed said there was no negotiation of the original due date. • 92 percent of routine service requests are given the default due date. • When asked about specific cases, only about one half of clients said timeliness was "good" or "very good."
Standing Committee on Justice, Human Rights, Public Safety and Emergency Preparedness, March 2005	
"We today on major crimes guarantee and have produced a 15-day turnaround, which is as good as if not better than anywhere else in the world."	• Analyses for most major crimes are not completed within 15 days. The FLS categorizes 99 percent of service requests as routine, including murder and other violent offences.
"[Regarding restructuring,] there is absolutely no loss or diminution of service. The timelines we are committed to with DNA and other tests stay the same."	• Although the RCMP established turnaround targets of 15 days for urgent service requests and 30 days for routine ones, it has created much longer Expected Diary Dates (EDDs), which are provided to clients as an estimate of when the examination will be completed. Furthermore, the EDD for Biology is currently 180 calendar days, up from 70 days in February 2003. • The timelines for completing Biology service requests have increased from an average of 91 days in the 2003–04 fiscal year to 114 days in 2005–06.
"Clearly, murder cases, cases with violence, violent assault cases, those kinds of things would definitely go right into the priority queue and be handled right away."	• 38 percent of service requests relate to violent offences. The FLS categorizes most of these as routine and does not give them any special priority.

Exhibit 7.11 **Summary of findings on statements to Parliament (Continued)**

Government and RCMP statements	Our findings
"By 2005 we will have substantially improved our ability to provide world-class service."	• In the 2005–06 fiscal year, turnaround times for Biology requests were longer than in earlier years and backlogs had increased.
"We have a negotiated agreement with the police forces on how much time they need: when does their case have to go to court? We negotiate to their satisfaction, each one."	• 82 percent of clients interviewed said there was no negotiation of the original due date. • 20 percent of clients said the original due date did not meet their needs.

About the Audit

Objectives

We wished to determine whether

- the Forensic Laboratory Services (FLS) of the Royal Canadian Mounted Police (RCMP) is delivering timely forensic services,
- there is adequate quality control of lab results,
- clients have adequate opportunity to influence how the FLS operates, and
- the RCMP has kept its commitment to report on FLS performance to Parliament.

Scope and approach

The audit was limited to the FLS. We did not examine other RCMP functions or services, nor the National DNA Data Bank. In addition, we did not audit the quality of the forensic science; we offer no opinion, positive or negative, on the validity of scientific analysis used.

For all lines of enquiry we reviewed RCMP documents and records, and met with management and staff. We also interviewed 42 staff members, 6 members of the Forensic Laboratory Services Advisory Group, and representatives from the Standards Council of Canada. We visited eight other labs to gather information:

Location	Laboratory
Ontario	Centre of Forensic Sciences
Quebec	Laboratoire de sciences judiciaires et de médecine légale
North Carolina, United States	State Bureau of Investigation Crime Laboratory
Georgia, United States	Georgia Bureau of Investigation, Division of Forensic Science
Florida, United States	Department of Law Enforcement, Crime Laboratory
United Kingdom	Forensic Science Service
Sweden	National Laboratory of Forensic Science
Netherlands	Netherlands Forensic Institute

During our visits we met with senior management and gathered information on lab features such as structure, business delivery model, budget, staff, workload, and turnaround times. We relied on information either published in the organizations' reports or confirmed by senior officials. The information is unaudited but has been verified by the labs we visited.

The examination also included a client survey using two types of interviews:

- case-specific interviews—questions about specific cases on which the FLS conducted analyses, and
- general interviews—questions about consultation and service in general.

For the case-specific interviews we extracted a random sample of 125 cases from the FLS Laboratory Information Management System (LIMS) database for which the FLS had completed at least one service request associated with a primary offence during the 2005–06 fiscal year (representing 2,117 cases out of 8,993). Ten of the 125 cases selected were found to be invalid; that is, we could not trace the case file number, or the investigator responsible for the case had retired or was unavailable during the survey, and no one else could answer our questions. For the 115 remaining cases identified, we interviewed 113 individuals: 65 RCMP and 48 municipal police investigators. The response rate was 98.3 percent. Overall estimates are accurate to plus or minus 6.3 percent 18 times out of 20.

We used two methods to develop a sample for the general interviews.

- Investigators: We used the 115 cases randomly selected for case-specific interviews. We asked the chief of police (municipal) or the unit supervisor (RCMP) associated with each case to put us in contact with the person most familiar with the FLS. We interviewed 86 of the 92 individuals contacted, including 46 RCMP and 40 municipal investigators.
- Prosecutors: From the LIMS database we drew a random sample of 60 prosecutors with three or more service requests over the last three years. Of these, 4 were considered to be invalid. We interviewed 49 of the remaining 56 prosecutors.

In total, we conducted 135 general interviews (with 86 investigators and 49 prosecutors), for a response rate of 91.2 percent. Overall estimates are accurate to plus or minus 5.8 percent 18 times out of 20.

To examine timeliness we downloaded data from LIMS and examined three fiscal years: 2003–04 through 2005–06. We analyzed data using the Statistical Package for the Social Sciences to confirm the number of cases and service requests, turnaround times, processing and waiting times, and backlog. We used the service request as the main unit of analysis because each case may include more than one service request with different due dates.

Criteria

We expected to find the following:

- Information provided to Parliament was complete and accurate.
- A prioritizing system was in place.
- High-priority cases were handled first.
- Turnaround targets had been set for initial DNA screening tests.
- Turnaround targets had been set for DNA analysis.
- Turnaround targets had been validated with clients, and were based on operational requirements and generally accepted international standards.
- Performance against these targets was monitored and corrective action taken.
- Turnaround targets established by the FLS were met.
- Turnaround times had improved relative to workload and resources.

- Turnaround times achieved by the FLS were reasonable in relation to benchmarked standards.
- Discretionary activity had been reviewed and budgets re-allocated.
- Accreditation of all sites was complete and up to date.
- A quality assurance program and appropriate procedures were in place to ensure quality for new initiatives and processes.
- A proficiency testing program was in place and adequately monitored.
- A national forensic advisory committee had been established, and was representative of the population of clients and stakeholders being served.
- Clients were being consulted and informed about FLS procedures and processes.
- Response times were being negotiated with clients and agreed delivery dates were being met.
- An information management system had been fully implemented.
- Performance reporting had improved.

Audit work completed

Audit work for this chapter was substantially completed on 20 November 2006, and was updated to reflect further information received up to 16 February 2007.

Audit team

Assistant Auditor General: Hugh McRoberts
Senior Principal: Peter Kasurak
Director: Shelley Trevethan

Claudette Blair
Alexis Dusonchet
Tara Beauchamp
Tamara Jensen

For information, please contact Communications at 613-995-3708 or 1-888-761-5953 (toll-free).

Appendix A Recommendations arising from past audits of forensic services

1990 Report of the Auditor General, Chapter 27, Royal Canadian Mounted Police—Support Services to Canadian Law Enforcement Agencies

- FLS should take steps to prevent obvious non-criminal cases from being submitted for examination.
- FLS should ensure that future laboratory construction decisions are based on the identification and cost/benefit analysis of all viable options.
- FLS should improve its performance measurement system by using an appropriate unit of measurement, recording data daily, and developing accurate standards.

April 2000 Report of the Auditor General, Chapter 7, Services for Canada's Law Enforcement Community

- In consultation with users, the RCMP should establish turnaround targets for initial screening tests for DNA warrants and turnaround targets for DNA analysis. Managers should monitor performance against these targets and take corrective action to improve service.
- The RCMP should ensure that priorities are set for all cases and high-priority cases are handled first. All discretionary activity should be reviewed and budgets reallocated.
- The RCMP should establish a national forensic advisory committee.
- The RCMP should ensure quality in its laboratories by timely accreditation, documentation of methodology, and full implementation of the proficiency testing program.
- The RCMP should ensure that its information management system is fully implemented and its performance reporting is improved.

October 2000 Report of the House of Commons Standing Committee on Public Accounts after considering the April 2000 Report of the Auditor General

- That the Royal Canadian Mounted Police develop a strategy to rationalize its forensic laboratory facilities and include that strategy, along with implementation dates, in its Report on Plans and Priorities (RPP) for fiscal year 2002–03.
- That the Royal Canadian Mounted Police develop and implement a series of performance indicators and standards for each of the services provided by its forensic laboratories by the end of fiscal year 2000–01.
- That the Royal Canadian Mounted Police use the results of performance measurement in conjunction with efforts to rationalize its forensic laboratories and consolidate services offered through those facilities.
- That the Royal Canadian Mounted Police use data generated by performance measurement to redirect resources to the areas, such as DNA testing, where they are most needed.
- That the Royal Canadian Mounted Police begin to report financial and performance information with regard to its forensic laboratories in its annual Departmental Performance Reports, beginning with the Report for the period ending 31 March 2002.

Appendix B List of recommendations

The following is a list of recommendations found in Chapter 7. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Timeliness of service	
7.28 The RCMP should ensure that the Forensic Laboratory Services' prioritization system and turnaround targets meet the operational needs of clients. Turnaround targets should be implemented before service requests increase, as they are expected to do once amendments to the *Criminal Code* and the *DNA Identification Act* come into force. The targets should be used to measure and report FLS performance. **(7.20–7.27)**	The RCMP agrees that response times must be reduced. As the report indicates, significant reductions have been achieved in all disciplines except Biology (DNA). The RCMP agrees that client consultation is important in ensuring that response times meet client needs. The RCMP will continue to engage its clients to establish reasonable turnaround targets. These targets will form the basis of performance reporting. The FLS acknowledges the significant additional demands on Biology services that the proposed changes to the *Criminal Code* and the *DNA Identification Act* will create. The FLS has identified its requirements to meet the proposed changes.
7.34 The RCMP should develop measures of service efficiency and effectiveness in consultation with clients. In addition to existing tools for measuring client satisfaction, it should use client surveys conducted by an independent, external organization. **(7.29–7.33)**	The RCMP agrees that measurement of efficiency and effectiveness, both internally and from client feedback, is important. The FLS currently uses a Quality of Service Questionnaire, which it encourages clients to complete. The RCMP agrees that use of an independent third party to develop and receive feedback may improve response rates and reduce the likelihood of bias. It will further explore this option.
7.43 The RCMP should develop mechanisms for identifying bottlenecks in the process and should determine the systems, procedures, and resources required to eliminate the backlog. **(7.40–7.42)**	The RCMP agrees that identifying bottlenecks in processes is important, and will undertake workflow analyses to determine further efficiencies.

Recommendation	Response
7.50 The RCMP should conduct a review of the Forensic Laboratory Services to examine internal efficiencies, perform a cost/benefit analysis of various services, and examine the need for additional resources. **(7.44–7.49)**	As per recommendation 7.43, the RCMP agrees that there should be cost/benefits analyses for all services and will undertake a workflow analysis to determine if there are further operational efficiencies to be gained.
7.51 The RCMP should develop a capability for management of the Forensic Laboratory Services to analyze capacity and efficiency (including comparing performance with that of other forensic labs) in order to handle future demands. **(7.44–7.49)**	The RCMP agrees that benchmarking is an important tool to measure performance and analyze capacity to meet future demands. The FLS will strive to balance capacity with performance by developing individual and unit performance metrics, and ensure that they are measurable and reportable.
Quality of lab results	
7.68 The RCMP should take measures to ensure identification of all quality issues. The RCMP should ensure that quality issues, once identified, are systematically tracked and resolved, and made available in a consolidated form, and that actions are communicated to senior management. **(7.52–7.67)**	The FLS agrees that it will put into place managerial mechanisms to ensure that quality issues are defined clearly, are recorded and tracked in a systematic manner in its Quality Management System, are available in a consolidated format, and that all actions are communicated to senior management.
7.73 The RCMP should develop standard procedures for project planning and implementation, including documentation of decisions and sign-off by senior management. **(7.69–7.72)**	In 2004, the FLS created the Project Management Office to ensure that PMBOK® (Project Management Institute) standard project management practices are applied to FLS projects. The decision-making process for planning, implementation, and sign-off of projects will be subject to a more rigorous and detailed process.

Recommendation	Response
Client consultation	
7.79 The RCMP should establish a mechanism for consulting with clients so that they have an opportunity to influence lab services, priorities, and service standards. (7.74–7.78)	The RCMP agrees that client consultation is an important component in identifying FLS priorities and ensuring client service is aligned with needs. Client consultation groups have been established, and a more comprehensive consultative plan will be developed to enable clients to influence decision-making processes. The FLS will undertake a more active communications approach with clients to enhance mutual understanding.
Performance reporting	
7.87 The RCMP should ensure that parliamentarians receive the information needed to hold the government to account for the performance of all activities related to the Forensic Laboratory Services, including information on turnaround times and the extent to which performance targets are met. (7.84–7.86)	The RCMP agrees with government's commitment to transparency and accountability. It will explore mechanisms to report to Parliament more fully.

Report of the Auditor General of Canada to the House of Commons—May 2007

Main Table of Contents

	A Message from the Auditor General of Canada **Main Points—Chapters 1 to 7**
Chapter 1	Use of Acquisition and Travel Cards
Chapter 2	Federal Loans and Grants for Post-Secondary Education—Human Resources and Social Development Canada and Canada Millennium Scholarship Foundation
Chapter 3	Human Resources Management—Foreign Affairs and International Trade Canada
Chapter 4	Canadian Agricultural Income Stabilization—Agriculture and Agri-Food Canada
Chapter 5	Managing the Delivery of Legal Services to Government—Department of Justice Canada
Chapter 6	Modernizing the NORAD System in Canada—National Defence
Chapter 7	Management of Forensic Laboratory Services—Royal Canadian Mounted Police

13673


3 1761 11550460 7